Petition

81-224

FILED
AUG 3 1981

No. .....
IN THE

Supreme Court of the United States

October Term, 1981

UNITED AIRCRAFT CORPORATION,

Petitioner,

vs.

ALBERT G. BODINE, JR., individually and doing business as Bodine Soundrive Company,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE CALIFORNIA COURT OF APPEAL, SECOND DISTRICT.

BODKIN, MCCARTHY, SARGENT & SMITH,
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Question Presented.

The California trial court decided that trade secrets belonging to plaintiff Albert G. Bodine, Jr. are embodied in U.S. patents and that such patents are the subject of patent misuse on the part of plaintiff Bodine. The court specifically decided that by requiring United to agree to take a license in the field of earth bore drills in order to obtain a license in the field of anti-submarine warfare devices, and by insisting that United contract to pay royalties on expired as well as unexpired patents, Bodine misused his patent rights. Despite this abuse and misuse of patent rights, the trial court concluded that such conduct did not constitute a basis under the doctrine of unclean hands for denying the relief sought by plaintiff under state trade secret law. The California Court of Appeal considered the patent misuse and unclean hands arguments but affirmed the trial court, holding the latter's rulings were not an abuse of its discretion.

Thus, the question presented is:

> Where a plaintiff seeks damages for misappropriation of trade secrets subsequently embodied in patents which are found to be the subject of patent misuse on the part of plaintiff in contracting with defendant, does federal patent law preempt state trade secret law so as to preclude recovery under state law by the abusing and misusing patentee?

Parties to the Proceeding in the California Court of Appeal.

Albert G. Bodine, Jr., individually and doing business as Bodine Soundrive Company, plaintiff below.

Soundrill Corporation, a corporation, plaintiff below.

United Aircraft Corporation, a corporation, defendant below.

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ALBERT G. BODINE, JR., individually and doing business as Bodine Soundrive Company,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE CALIFORNIA COURT OF APPEAL, SECOND DISTRICT.

The petitioner United Aircraft Corporation respectfully prays that a writ of certiorari issue to review the judgment and opinion of the California Court of Appeal, Second District, entered in this proceeding on March 4, 1981.

Opinion Below.

The opinion of the California Court of Appeal, which was not certified for publication, appears as Appendix A hereto. No opinion was rendered by the California Supreme Court.

Jurisdiction.

The judgment of the California Court of Appeal, Second District, was entered on March 4, 1981. A timely Petition for Hearing in the California Supreme Court was denied on

May 13, 1981, thereby making the intermediate appellate decision the final state court judgment and thus reviewable by the United States Supreme Court. *Gallick v. Baltimore & Ohio Ry. Co.* (1963) 372 U.S. 108, 109. This Petition for Certiorari was filed within ninety days of that date.

This Court's jurisdiction is invoked under 28 U.S.C. §1257(3). The Court of Appeal refused to compel the trial court to bar the plaintiff from recovery on the ground that he abused and misused his patents, ruling that this matter was properly within the trial court's discretion. That ruling forms the core of the federal issue that is the subject of this petition. It is now the law of the case and cannot be re-examined within that court system. Although this federal question would become moot should the petitioner prevail on the merits at retrial, a decision in favor of the petitioner on this issue by this Court would not only conclude this litigation immediately but also vindicate important federal policies which underlie the patent laws. In such circumstances, prior cases decided by this Court argue in favor of granting certiorari. *Cox Broadcasting Corp. v. Cohn* (1975) 420 U.S. 469, 482-486.

Constitutional Provisions.

United States Constitution, Article I, §8, cl. 8:

> The Congress shall have Power . . .
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .

United States Constitution, Article VI, cl. 2:

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the

Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Statement of the Case.

United Aircraft Corporation ("United") is a corporation which has long been engaged in the manufacture of aircraft engines and equipment, and of electronic equipment. One of its divisions, Hamilton Standard, has been a principal manufacturer of aircraft propellers, and in connection therewith has been engaged in extensive work in the field of vibration engineering involving sonic or acoustic energy.

Albert G. Bodine, Jr. ("Bodine") is an inventor who holds many foreign and United States patents, most of which involve the use of sonic or acoustic energy. In dealing with United, Bodine acted as an individual doing business as Bodine Soundrive Company (Exs. 13, 14, 15).[1]

About 1945, Bodine began his efforts to invent a sonic drill with the principal purpose of drilling for oil and gas. To finance development costs, Bodine entered into a series of financial arrangements with concerns such as Shell Oil Company (RT 124, 1347-8), Drill Associates (RT 141), Sonic Services, Inc., Chrysler Corporation and Borg-Warner (RT 164, 1203). Following Borg-Warner's decision to terminate its agreements with Bodine, he approached United in 1959 (CT 273). At that time, Bodine sought to interest United not only in his sonic drill concept, but also

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[1]Soundrill Corporation, an original plaintiff, is one of Bodine's wholly-owned corporations which was organized to hold a "basic" drill patent. Soundrill was not a party to any contract with United, but its patent was listed in one of the contracts between Bodine and United which are hereinafter described.

In its opinion, the California Court of Appeal affirmed the trial court's order granting judgment notwithstanding the verdict as to Soundrill. Soundrill thus is no longer a party to this action and is not affected by this petition.

in an anti-submarine warfare (ASW) device which he claimed utilized the same principles as the sonic drill.

Before undertaking discussions regarding the sonic drill and ASW concepts, Bodine and United executed a disclosure agreement dated June 23, 1959, which provided for the exchange of technical information between the parties, but limited rights and remedies arising out of exchanges between the parties to those secured by the patent laws only (Ex. B).

United expressed interest in the ASW concept following the June 1959 discussions with Bodine, but initially was not interested in any arrangement involving the sonic drill (CT 275). Bodine, however, responded to United's suggestions by adopting the position that the drill and ASW could not be separated into different licensing agreements (RT 275). Bodine's position, coupled with his assurances that the drill was close to being perfected, eventually convinced United to acquire an option to take a license for both devices.

Three contract documents were executed by Bodine and United effective January 1, 1960, including an Option and License Agreement (Ex. 13), a letter agreement modifying the option (Ex. 15) and a Services Agreement (Ex. 14). Although these contracts were initially drafted by Hamilton Standard, numerous changes were made at Bodine's request (RT 1181-3; Ex. 9).

The Option and License Agreement granted United a six-month option to take an exclusive worldwide license in the fields of "earth bore drills employing vibratory principles" and "underwater sound generation and anti-submarine sonar devices." Upon exercise of the option, a license would be granted covering all of Bodine's inventions in those fields, including those covered by fifty U.S. and foreign patents and two pending U.S. Patent applications, at a royalty based

on specified percentages of United's invoice prices. The letter agreement authorized United to avoid payment of further percentage royalties on the license by payment of a multi-million dollar sum. The Services Agreement provided that Bodine would perform design studies and other tasks at United's request for monthly fees specified therein.

Among the changes made in the contracts at Bodine's request were certain deletions from the Option and License Agreement,[2] which had the effect of basing ASW royalties on the life of unrelated and inconsequential patents in the sonic drill field, and *vice versa*. To attain this result, Bodine demanded the deletion of the italicized portions of Article VI of the Option and License Agreement, set forth below.

> "1. In full consideration of the rights and licenses granted to United by this Agreement as set forth in Articles II and IV hereof, United agrees to pay the initial sum of One Hundred Thousand Dollars ($100,000) to Bodine upon delivery of the notice prescribed in Paragraph 2 of Article III hereof that United intends to exploit the subject inventions and thereafter to pay royalties to Bodine *on devices covered by any unexpired United States and foreign patents or applications therefor and manufactured by United or its sublicensees* at the following percentages of United's invoice prices. . . ."

Bodine's initials are found to the left of the stricken portion of the Option and License Agreement and he admitted that that portion was deleted at his request.

Further, Article IX of the Option and License Agreement defined the "term of the Agreement", in part, as follows:

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[2]A copy of the Option and License Agreement (Ex. 13), which reveals the changes demanded by Bodine, appears as Appendix B hereto.

> "The expression 'term of this Agreement' as used herein shall mean a period commencing on the date first above mentioned, and, unless sooner terminated pursuant to any provision hereof permitting such sooner termination, *shall terminate with respect to the United States of America at the end of the full term of the last expiring patent* issued by the United States on Subject Inventions and shall terminate as to each country foreign to the United States at the end of the full term of the last expiring patent issued by such country on the Subject Inventions." (Emphasis added).

Under these provisions, United's obligation to pay royalties pursuant to the Option and License Agreement would persist until expiration of the last expiring U.S. or foreign patent on the "Subject Inventions," which were defined in Article I, Section 2 to include all inventions and discoveries which might thereafter be conceived or acquired by Bodine in the field of the Agreement.

Under these contracts, United investigated the ASW and drill concepts in order to decide whether it would exercise the option to take a license. Following the investigation of the drill both Hamilton Standard and its parent, United, declined to exercise the option and invest in the project, for the reason that too great an investment of time and money was required and the chances for success were far from certain (RT 4873 *et seq.*). However, United and Bodine agreed to a three-month extension of the Option to allow United to locate venture capital to fund the drill project (Exs. 66A, 66B; CT 285). This attempt proved unsuccessful.

The prospects for the ASW device were also investigated during this same period. Because, as Bodine himself conceded, he had done little work in the ASW field, had no knowledge of design requirements, had made no effective

desig.. study and was unsure of any design (RT 4768; Ex. 000), United dealt directly with the Navy, the only potential customer for the device. In June 1960, during the option period and as contemplated by the parties, United submitted a proposal to design and build a full-scale ASW transducer for the Navy at a cost of $3,500,000 (Ex. 70; RT 3398-3400). While the Navy rejected this proposal, it indicated a proposal for a scale-model might be approved (RT 6468-9). United followed this suggestion, proposing that a one-fifth scale model be built at a cost of about $150,000 (Ex. 75).

On September 28, 1960, two days before the extended option was to expire, United requested that Bodine license it immediately in the ASW field alone, advising him that there was a reasonably good chance of obtaining a modest Navy contract. United also requested a one-year extension of the option to take a license regarding the sonic drill and an extension of the Services Agreement (RT 867-8, 4427-8; CT 286; Ex. 77). Bodine rejected United's proposal, and United's option expired without having been exercised on September 30, 1960.

United abandoned all work on the sonic drill at that time. Following expiration of the option, United was awarded the Navy contract, performance of which was concluded in June 1962 (RT 4472-4). The device as built for the Navy did not include all of the elements of Bodine's ASW trade secret as he defined them during his testimony at the most recent trial (RT 1128-32).[3] United's performance of the Navy contract resulted in a $9,982 fixed fee for United, plus reimbursement of United's costs in the approximate amount of $142,600.

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[3]This action has been tried twice, in 1968 and 1977.

Both of Bodine's claimed trade secrets which are involved in this lawsuit — ASW and sonic drill — were granted patent protection, and he received seventeen-year monopolies relative thereto within a period of three years after his contracts with United expired (Exs. AD, 106, 242).[4]

Bodine and his Soundrill Corporation commenced this action on November 1, 1962, and the case was first tried in 1968. A substantial jury verdict was overturned by the first trial judge, who granted United's motion for a new trial because of the insufficiency of the evidence, *inter alia*. The order granting United a new trial was affirmed by the California Court of Appeal in an unpublished opinion.[5]

This action was then returned to the trial court in 1976 for a retrial, and the issues as originally framed by the parties were amended by both sides. Among these issues were defenses which United had not raised at the first trial, including plaintiffs' abuse and misuse of patents in various respects and lack of clean hands. Prior to the submission of the case to the jury, the court ruled that these defenses were all part of the defense of unclean hands, which is equitable in nature, and thus the trial court reserved the decision on the unclean hands defense for the court after the jury returned its verdict.

On September 27, 1977, the jury returned a verdict awarding plaintiffs a total of $15 million. The court then announced its intended decision in favor of the plaintiffs on the unclean hands defense, and made Findings of Fact and

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[4]During the term of United's option, applications were filed with the Patent Office for the devices eventually patented by Bodine.

[5]Following the first decision by the Court of Appeal, United sought to have the dispute arbitrated, which motion was denied by the trial court. That order was affirmed by the Court of Appeal in an opinion published at 52 Cal.App.3d 940, which is not relevant herein.

Conclusions of Law at United's request. Despite its refusal to bar plaintiffs' recovery on the basis of their unclean hands, the trial court found that Bodine misused his patent rights by requiring post-expiration royalty payments, and by acts of tying and mandatory package licensing. Judgment thereupon was entered on April 4, 1978. The trial court later granted United's motion for judgment n.o.v. as against Soundrill, and granted motions for new trial as to both plaintiffs, conditioned, as to Bodine, on his failure to consent to a remittitur.

All parties appealed and/or cross-appealed from the judgment and various orders. The California Court of Appeal, in a March 4, 1981 decision, affirmed all rulings of the trial court and effectively remanded the case for a third trial. As part of its decision, the Court of Appeal affirmed the trial court's refusal to bar plaintiffs' recovery on the basis of the unclean hands defense, despite United's assertion that plaintiffs were barred from recovery because of the trial court's findings that they were guilty of abuse and misuse of their patent rights. United petitioned the Court of Appeal seeking a rehearing, which was denied on March 26, 1981. United also filed a petition for hearing in the California Supreme Court, which petition was denied on May 13, 1981.

REASONS FOR GRANTING THE WRIT.

The Decision of the Court Below Created a Conflict Between State Trade Secret Law and Federal Patent Law to the Extent That That Court Failed to Bar Plaintiffs From Any Recovery Based on Inventions Which Were the Subject of Their Patent Abuse and Misuse.

As one aspect of the defense of unclean hands raised by United at the 1977 trial the trial court decided the issue of plaintiffs' abuse and misuse of their patents, and whether such conduct should bar plaintiffs' recovery on their cause of action for fraudulent misappropriation of their trade secrets. Although the trial court declined to bar any recovery on the basis of the various acts considered as part of the unclean hands defense, that court also made Findings of Fact and Conclusions of Law in which it held that plaintiffs had indeed conducted themselves in a manner which constituted an abuse of their patent rights, which abuse occurred in two specifics.

First, the trial court found Bodine required certain language in the agreements between the parties which would have required United to continue to pay him post-expiration royalties on his patents. As detailed in the Statement of the Case, *supra*, Bodine's deletions from Article VI of the Option and License Agreement resulted in a structure of royalty payments which covered both expired and unexpired patents. The practice of requiring payment of post-expiration royalties has been held to constitute patent misuse sufficient to bar a plaintiff's action. *Brulotte v. Thys* (1964) 379 U.S. 29, 32. Although the trial court found that plaintiffs refused to grant United a license without man-

dating the payment of post-expiration royalties,[6] that court also concluded that such conduct did not bar plaintiffs' recovery.

The trial court further found that plaintiffs refused to grant an option or license for the ASW device unless United also agreed to take a license in the field of sonic earthbore drilling.[7] Such conduct is clearly improper under package licensing and tying theories of federal patent law.

Plaintiffs were guilty of mandatory package licensing because they demanded that United take a license tying ASW and drill patents in a mandatory package at a single royalty extending to the last patent in the package to expire, and because they refused to license anything less than the package of those patents *in toto*. The illegality of mandatory package licensing agreements such as the one extracted from United by plaintiffs was clearly established in the case of *American Securit Co. v. Shatterproof Glass Corp.* (3rd Cir. 1959) 268 F.2d 769; cert. den. (1959) 361 U.S. 902. The Court of Appeals stated therein:

> "Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a

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[6]Finding 22 reads:

> "Plaintiffs refused to grant defendant a license or an option to take a license under patents and/or patent applications owned by him unless defendant agreed to pay royalties during the terms of said license or licenses on devices covered by expired patents as well as patents still in effect and unexpired."

[7]Finding 21 reads:

> "Plaintiffs refused to grant defendant a license, or an option to take a license, under patents and/or patent applications owned by plaintiffs, or either of them, in the field of anti-submarine warfare devices unless defendant agreed to take a license in the field of earth-bore drills as well."

license under another. Equity will not countenance such a result." (*Id.*, at 777).

Further, the *American Securit Co.* case establishes the additional rule that the defense is available to a patent licensee or optionee despite the fact that it may acquiesce to the patentee's demands and take a license for a package of patents. In addition, mandatory package licensing constitutes an illegal tying arrangement. *Zenith Radio Corporation v. Hazeltine Research, Inc.* (1969) 395 U.S. 100. Tying arrangements of this sort, whereby an inventor requires his licensee to take a license in an undesired, "tied" field as a condition to obtaining a license in the desired "tying field", serve no legitimate commercial purpose, and are therefore properly regarded as *per se* violations of the antitrust laws.[8]

As to this conduct, constituting both an illegal tying agreement and abuse of patent rights, the trial court and Court of Appeal refused to invoke the defense of patent misuse to bar plaintiffs from any recovery, despite the trial court's conclusion that the plaintiffs misused their patent rights.[9] Accordingly, the state courts have authorized a recovery with respect to inventions under state trade secret

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[8]This Court's most recent decision relating to illegal tying arrangements, *Dawson Chemical Co. v. Rohm & Haas Co.* (1980) 448 U.S. 176, is not applicable herein, as this Court in *Dawson* ruled on the patentholder's statutory right to control nonstaple goods that are capable only of infringing use in a patented invention.

[9]Conclusions 4 and 7, respectively, read as follows:

"4. Plaintiff Bodine misused the plaintiffs' patent rights contrary to the patent laws of the United States. Such conduct is not a valid basis for invoking the unclean hands doctrine as a defense.

. . .

7. Defendant's contentions with respect to alleged misuse and abuse of the patents which Bodine or Soundrill Corporation owned or had applied for do not constitute a basis for applying the unclean hands doctrine."

law where recovery involving the same inventions is specifically prohibited under federal patent law.

The impropriety of this ruling and the conflict it creates between state law and federal patent law is underscored by the manner in which Bodine has structured his claim for damages in this action. Although Bodine was careful not to sue for relief under the patent laws by bringing an action for patent infringement, his damage claims as to both the drill and ASW device were based entirely on the dollar amounts he claimed were lost to him in future patent license royalties. Thus, Bodine sought to avail himself of benefits accorded to him solely by the patent laws even though recovery under the patents themselves would have been barred.

Contrary to the holdings and reasoning of both the trial court and the California Court of Appeal, application of the defense of patent abuse and misuse is not a decision within the trial court's discretion. Rather, the defense is applied automatically as a bar to any recovery by a plaintiff without reference to the court's discretionary powers. *American Securit Co. v. Shatterproof Glass Corp.* (3rd Cir. 1959) 268 F.2d 769, cert. den. (1959) 361 U.S. 902. In a case involving the tying of patented and unpatented materials, *Morton Salt Co. v. G.S. Suppiger Co.* (1941) 314 U.S. 488, 494, the United States Supreme Court stated the rule in this fashion:

> "It is the adverse effect upon the public interest of a successful infringement suit in connection with the patentee's course of conduct *which disqualifies him to maintain the suit*, regardless of whether the particular defendant has suffered from the misuse of the patent." (Emphasis added).

United has continuously urged that the defenses of patent abuse and misuse are applicable in this action, even though

it has been brought in the form of an action for fraudulent misappropriation of trade secrets, and should bar plaintiffs' recovery. The application of the defense is required by the nature of plaintiffs' claim for damages, by the fact that patents were eventually issued to Bodine covering both involved devices, and particularly by the public policy underlying the patent laws.

That policy as expressed by this Court in *Kewanee Oil Co. v. Bicron Corp.* (1974) 416 U.S. 470, 480-1, is to encourage the disclosure of all patentable inventions through the issuance of patents by granting a limited seventeen-year monopoly to those who patent their inventions. Further, in *Application of Sarkar* (U.S.C.C.P.A. 1978) 575 F.2d 870, 872, the Court of Customs and Patent Appeals construed the *Kewanee* decision to be based on the principle that

> "wherever possible, trade secret law and patent law should be administered in such manner that the former will not deter an inventor from seeking the benefit of the latter, because the public is *most* benefited by the early disclosure of the invention in consideration of the patent grant."

This principle, enunciated in *Sarkar, supra,* and at the heart of the *Kewanee* decision, mandates the application of the patent abuse defense to bar Bodine from any recovery in this action. If the patent abuse and misuse defense applicable as a bar to an inventor's recovery in a patent case is not applicable to bar recovery in a trade secret case as well, the effect would be to *discourage* inventors from seeking to patent their inventions where they have engaged in any conduct which might conceivably be considered unconscionable. Inventors, assured of protection by state trade secret laws including the same measure of damages available to them in an action based on their patent rights, would be deterred from seeking the benefits of the patent laws, be-

cause of the knowledge that they would find themselves barred from receiving similar protection under the patent laws by operation of the patent misuse and abuse defense. The policy of encouraging disclosure of all patentable inventions, which is at the core of the patent laws, would be severely undercut if this result were allowed to stand.

The conflict which arises between the state trade secret laws and federal patent law as a result of the Court of Appeal's failure to apply the defense to bar plaintiffs' recovery is of sufficient gravity to require the determination that, in the circumstances of this case, state trade secret law is preempted by federal patent law in this area. In a recent case discussing the interplay between the state trade secret laws and federal patent laws, *Aronson v. Quick Point Pencil Co.* (1979) 440 U.S. 257, 262, this Court held that "the states are free to regulate the use of . . . intellectual property in any manner not inconsistent with federal law." The *Aronson* court also stated:

> "In this as in other fields, the question of whether federal law preempts state law 'involves a consideration of whether that law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" . . .'. . . .
>
> In *Kewanee Oil Co.*, . . . we reviewed the purposes of the federal patent system. First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public." (*Aronson, supra,* at 262).

Although in both the *Aronson* decision and in *Kewanee, supra,* cited in the *Aronson* opinion, this Court determined

that preemption of the state laws was not mandated, this action offers a distinctly different set of facts. These facts require this Court to determine that state trade secret law is preempted because, as applied, it conflicts with federal patent law. First, this action involves claimed trade secrets allegedly developed by plaintiffs which not only were patentable, but were, as the state courts recognized, ultimately patented. It is in this area, involving trade secrets which are patentable, "that the federal interest in disclosure is at its peak . . ." (*Kewanee, supra,* at 489.) With regard to this category of inventions, the *Kewanee* court ruled:

> "The interest of the public is that the bargain of 17 years of exclusive use in return for disclosure be accepted. If a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist." (*Kewanee Oil Co., supra,* at 489).

Such a "substantial risk" has clearly occurred in the instant case as a result of the Court of Appeal's failure to bar plaintiffs' recovery because of their patent abuse.

Further, although the *Kewanee* case established that, as a general rule, state trade secret laws do not conflict with federal patent laws, the *Kewanee* decision was based entirely on this Court's assumption that there were no circumstances under which trade secret law produced benefits for the inventor of a clearly patentable invention which would result in an inventor seeking trade secret rather than patent remedies. (*Kewanee Oil Co., supra,* at 491). As is evidenced by this case, this Court did not consider all possible circumstances: the plaintiffs herein have chosen the state forum and the protection of state trade secret laws in order to avoid application of the defense of patent abuse and misuse and

to avoid a test of the validity of their patents in the courts, both of which would have resulted had plaintiffs sought the protection of the federal patent laws.

Further, the effect of the decision of the California Court of Appeal is to reward Bodine and all other inventors who engage in illegal practices, for it allows them to recover the equivalent of royalties they would have received on their patents in the form of damages, while ignoring conduct which would otherwise disqualify them from any recovery whatsoever. The conflict between the two remedial schemes is clear.

This Court's remarks in *Sears, Roebuck & Co. v. Stiffel Co.* (1964) 376 U.S. 225, 229, wherein the interplay between the federal patent laws and state unfair competition laws was discussed, are particularly appropriate:

> "[The patent] laws, like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land. . . . When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law. . . . This is true, of course, even if the state law is enacted in the exercise of otherwise undoubted state power."

In order to avoid the frustration of the policy underlying the patent laws — to encourage public disclosure of all patentable inventions — this Court should review the decision of the California Court of Appeal, which results in clear conflict between the federal patent and state trade secret laws.

Conclusion.

For these reasons, a writ of certiorari should issue to review the judgment and opinion of the California Court of Appeal.

Respectfully submitted,

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APPENDIX A.

Opinion of the Court of Appeal.

In the Court of Appeal of the State of California, Second Appellate District, Division Three.

Albert G. Bodine, Jr., individually and doing business as Bodine Soundrive Company, and Soundrill Corporation, a corporation, Plaintiffs, Appellants, and Cross-Respondents, v. United Aircraft Corporation, a corporation, Defendant, Respondent, and Cross-Appellant. 2nd Civil No. 57015, (Super. Ct. No. C-807209).

Filed March 4, 1981.

APPEAL from judgments and orders of the Superior Court of Los Angeles County. John A. Loomis, Judge. Affirmed.

Ward and Heyler, Guy E. Ward, Gary G. Kuist for Plaintiffs, Appellants and Cross-Respondents.

Bodkin, McCarthy, Sargent & Smith, Kevin W. Horan, Thomas W. Falvey, Toni M. Oberscheven, Henry G. Bodkin, Jr. for Defendant, Respondent and Cross-Appellant.

STATEMENT OF THE CASE

Plaintiffs, appellants and cross-respondents Albert G. Bodine, Jr., individually and doing business as Soundrive Company (hereinafter Bodine) and Soundrill Corporation (hereinafter Soundrill) joined as plaintiffs to sue for recovery of the value of certain inventions, models, drawings, engineering and scientific information, trade secrets, material, data and property alleged to have been fraudulently obtained, exploited and retained by defendant United Aircraft Corporation (hereinafter United) without payment.

Following a lengthy jury trial, Bodine was awarded $13 million including $4 million punitive damages. A new trial was ordered and Bodine appeals.

Soundrill was awarded $2 million including $1 million punitive damages. A judgment notwithstanding the verdict was entered. Alternatively, the court ordered a new trial as to Soundrill, should the judgment notwithstanding the verdict be reversed. Soundrill appeals from these orders.

United appeals from the denial of judgment notwithstanding the verdict as to Bodine and the judgment, should it be reinstated.

FACTS

Bodine is an inventor with over forty years experience in developing products and ideas in the field of acoustic vibratory energy. His business was, and is, conducted as Bodine Soundrive Company, a sole proprietorship, and Soundrill Corporation, wholly owned by Bodine.

In 1945, Bodine began efforts to develop a sonic drill to be used principally in drilling for oil and gas. From 1946 to 1958 Bodine, in conjunction with several companies, worked on development of the drill.

In 1959, in addition to the drill, Bodine sought to interest several companies in a related device utilizing the same principles as the drill to transmit low frequency, high power sound waves great distances in the ocean. Bodine felt this device, called a "transducer," could achieve a U.S. Navy objective of long range submarine detection.

The only company Bodine reached an agreement with concerning the sonic drill and the antisubmarine device (ASW) was United.

Bodine's contract relationship with United relating to the drill and the ASW device began with a visit by Bodine to United's corporate offices in Connecticut on June 23, 1959. Bodine was referred to United's Hamilton Standard Division whose principal product had been aircraft propellers. The advent of the jet engine had caused Hamilton to be looking

for new product lines and the ASW device was thought to be a candidate.

During the June 23, 1959 meeting, Bodine discussed his concept for the sonic drill and his several patents relating to it. He also talked about the Navy's interest in the principles of the drill as a high powered, underwater sound source for detection of submarines. United's representatives expressed considerable interest in the ASW device. United had no experience with oil well drills.

In July 1959, Hamilton Standard wrote to Bodine inquiring into the possibilities of entering into an option agreement pertaining to his ASW ideas.

Bodine's response was that he would only consider the proposition if, concurrent with developing his ideas in the ASW field, United also assisted in developing the sonic drill. He stated the two concepts were technically intertwined. He also claimed he had been advised he would incur a tremendous tax liability if he were to attempt to separate the two concepts.

When Walter Shaw, a Hamilton engineer, visited Bodine in Los Angeles in October 1959, Bodine took the position that he could not separate the two devices by granting United a license relating only to the ASW concept. He said that individually licensing the ASW concept would necessitate dissolving Soundrill. His proposed solution was for United to acquire an ownership in Soundrill and assume the right to develop the sonic drill as well as the ASW device.

After investigating earlier attempts to develop the sonic drill, Shaw reported to his superiors that the drill project was potentially profitable. It was at this time United became interested in both the ASW device and the drill.

Following a series of discussions, three contract documents were executed by United and Bodine effective Jan-

uary 1, 1960. These documents consisted of an Option and License Agreement, a Services Agreement, and a letter agreement.

The Option and License Agreement granted United a six-month period to investigate Bodine's sonic drill and the ASW concepts he advocated. It included an option to take an exclusive, worldwide license under certain specified or otherwise described patents and patent applications in the fields of the drill and the ASW device. The license, if taken, was to be on a sliding scale royalty basis with minimum royalties of $10,000 per month. Payment by United of $100,000 in cash upon exercise of the option was required in return for the granting of license rights and the transfer of all stock of Soundrill, Inc. to United. Article VIII, section 5 of the Option Agreement limited the rights of the parties to those existing under patent laws.

The Services Agreement provided for the rendition of services by Bodine during the option period and for a minimum period of two years thereafter if the option was exercised and the license taken. Bodine was to be reimbursed for his actual expenses incurred in performing the services, subject to an average minimum of $10,000 per month. The Services Agreement expressly authorized United to designate the services to be performed by Bodine.

The letter agreement was a separate and additional option to United, presupposing it exercised its option to take the license, to make the license paid up and royalty free by payment of $15 million in addition to any royalties as had previously been paid or $20 million including any royalties paid.

In January 1960, A. F. Dernbach, the engineer placed in charge of the Bodine project by United and a team of other engineers visited Bodine's plant in Los Angeles. Their

purpose was to gather information that would prepare them for the investigation contemplated in order for United to decide if it would exercise the option to take the license. The team members were instructed to document any ideas of their own to protect against possible claims by Bodine that he had originated them.

The United investigating team was divided into two groups. One group concentrated on the drill, the other on the ASW device. Although there was some overlapping of assignments, the two groups acted independently after the January visit to Bodine's premises.

To investigate and evaluate the commercialization potential of the sonic drill, United retained outside consultants to study the records generated by Borg-Warner, a firm which had previously investigated the matter. A market survey was also conducted. To conduct the survey, drilling contractors who would be prospective users of the drill, if it were perfected, were interviewed and given a brochure and a sketch describing the drill. A questionnaire was also circulated.

In May 1960, Dernbach made a presentation of the results of the drill team's efforts to Hamilton's top executives and recommended that the option be exercised and that United commit time and resources to develop and perfect the sonic drill. The recommendation was also submitted to United.

The project was rejected. It was decided the drill would be a new field and that United had better places to put its money.

By this time, the six-month option was about to expire. Dernbach was then authorized to seek an extension of the option period so that an attempt might be made to obtain outside financing for the drill project.

Bodine agreed to a three-month extension on condition the Services Agreement be revised to provide an increase in the average monthly sums paid to him from $10,000 to $15,000. He also was not to be required to perform services relating to the ASW device for the monthly minimum payments. This revision came about because Bodine disputed United's claimed right to select the tasks to be performed by Bodine for the agreed upon minimum payments of $10,000 per month.

Dernbach attempted to obtain outside financing from Rockefeller Brothers, Inc. With the assistance of First National City Bank of New York, he made a lengthy presentation of the project and submitted a written proposal. Rockefeller Brothers, Inc. rejected the proposal.

Concurrently with the drill investigation, the balance of Dernbach's team worked on the ASW device. To obtain access to classified Navy materials not available to either Bodine or United, they submitted a proposal for a no-cost study contract to the Office of Naval Research. The contract was awarded and performed and United thereby obtained "need to know" status with the Navy relative to ASW devices of the type involved.

In late June 1960, during the option period, United submitted a proposal to the Navy to design and build a full scale, high powered, low frequency transducer at a cost of $3.5 million. This proposal was rejected with the suggestion that while funds for a full-scale device were not available, the Navy would look favorably on a proposal for a scale model at a much lower cost. Accordingly, on August 30, 1960, prior to expiration of the option, United proposed that it build, at a cost of $150,000, a one-fifth scale model operating at 2000 cycles per second instead of the 400 cycles frequency intended for the full-scale unit. In addition to

reimbursement of United's costs, the contract provided for a fixed fee of $9,982.

On September 28, 1960, two days before the extended option was to expire, United requested that Bodine license it in the field of ASW alone and advised him that it felt there was a reasonably good chance it could obtain a modest Navy contract. In addition, United requested a one-year extension of the option to take a license relating to the sonic drill and an amended extension of the Services Agreement.

Bodine rejected United's proposal and the option expired without having been exercised on September 30, 1960. Both parties confirmed the termination of the contracts in early October 1960.

Upon termination of its contracts with Bodine, United abandoned all work on the sonic drill.

Following termination of the option, United was awarded the Navy contract for the scale model transducer, although the contract was not executed until January 1961. Performance of the contract was concluded in June 1962. The device built did not employ any form of mechanical oscillator.

United made a further effort in 1961 to obtain a Navy contract to build a full-scale transducer utilizing a flyweight oscillator. The Navy declined to award the contract.

After the contracts between Bodine and United had been terminated, Bodine requested a copy of United's evaluation findings contained in a written report prepared in June 1960 relating to the sonic drill. Included in that report was the recommendation of Dernbach's investigation team that was rejected by both Hamilton's and United's top executives.

Bodine was provided a modified version of the June Drill Report dated September 1, 1960. The Economics and Patent sections in the June report were deleted. The September report contained rewritten conclusions and recommenda-

tions to reflect the corporate decision not to exercise the option rather than the investigating team's rejected affirmative recommendation. Changes in anticipated time and cost figures and projected profit were made to reflect management's view.

Bodine claims he attempted to interest other companies in commercializing the drill, but was never able to license the down-the-hole sonic drill after the United relationship terminated. This claim is disputed. United cites Bodine's licensing arrangements with Sonic Geophysical Co. in 1963, Shell Oil Company in 1964 and Hawker Siddley Canada in 1973 in the drill field an area in which United claimed to have held an option to take a license.

CONTENTIONS

(1) Error to grant new trial as to Bodine.

(2) Defense of unclean hands should have been applied.

(3) Error to deny judgment notwithstanding the verdict as to Bodine.

(4) Error to grant judgment notwithstanding the verdict as to Soundrill.

DISCUSSION

Granting of Motion for New Trial as to Bodine

Bodine contends it was error to grant a new trial and that the order does not meet the requirements of Code of Civil Procedure section 657.

Code of Civil Procedure section 657 requires that, "When a new trial is granted, on all or part of the issues, the court shall specify the ground or grounds upon which it is granted and the court's reason or reasons for granting the new trial upon each ground stated. [¶] A new trial shall not be granted upon the ground of insufficiency of the evidence to justify the verdict or other decision, nor upon the ground of ex-

cessive or inadequate damages, unless after weighing the evidence the court is convinced from the entire record, including reasonable inferences therefrom, that the court or jury clearly should have reached a different verdict or decision."

When a new trial order is based upon the ground of insufficiency of the evidence to justify the verdict, or upon the ground of excessive damages, Code of Civil Procedure section 657 further states that, ". . . it shall be conclusively presumed that said order as to such ground was made only for the reasons specified in said order or said specification of reasons, and such order shall be reversed as to such ground only if there is no substantial basis in the record for any of such reasons."

The trial court ordered a new trial on the grounds of excessive damages and insufficiency of the evidence. The specifications filed by the court are as follows:

"Since hearing the oral arguments of counsel, the Court has again reviewed not only the briefs but all of the notes summarizing the evidence presented to the jury. After weighing the evidence, the Court finds that the jury clearly should have reached a different verdict as to each plaintiff. The court further finds that the damages awarded are excessive, as to the amounts for compensatory damages, punitive damages, and interest.

"In making these determinations, the Court has, of course, been aware of the outcome of the first trial and the appeal therefrom. The Court has noted that the first trial involved the trial of five causes of action whereas in this trial plaintiffs presented only one cause of action for fraud. The Court has noted that both sides in the second trial have presented evidence different from, and in addition to, that presented at the first trial. The appeal decision of the Court

of Appeal mandated the exclusion of some evidence admitted at the former trial.

"From these observations, it is clear that this Court, in ruling on the motions here presented, must consider the entire evidence in this trial independently of the rulings made by the trial judge in the previous trial.

"With the knowledge that two juries have awarded large verdicts in successive trials, it behooves this Court to examine carefully the merits of the respective positions before disturbing the latest jury pronouncement. This the Court has done, realizing full well the importance of a $15,000,000 verdict to both sides.

"After the first trial and the appeal, there remained two causes of action, one based on breach of the contract between the parties, the other based on fraud. Prior to the commencement of the second trial, plaintiffs dismissed the contract cause of action. Consequently, proof of the breach of a contractual provision would not support a judgment against defendant.

"The fraud claim is based on the contention of plaintiffs that defendant, in entering into the Option Agreement (Exhibit 13), did not do so in good faith, and, at the time the agreement was entered into, had no intention of ever exercising the option. It is contended that defendant, instead, entered into the Option Agreement for the purpose of obtaining information concerning the plaintiffs' trade secrets on the sonic drill and the antisubmarine warfare device (ASW) and for the purpose of stealing and using such trade secrets.

"In reviewing the evidence, it is necessary to consider separately the claim relating to the jacketed sonic oil well drill and the claim relating to the ASW device.

"Consideration of the Jacketed Sonic Drill

"With respect to the sonic drill, the jury found compensatory damages of $6,000,000, plus interest and punitive damages. This Court finds that the jury clearly should have reached a different verdict on the evidence presented on the sonic drill. The jury should have awarded nothing to the plaintiffs for the sonic drill for the following reasons:

"1. The evidence fails to prove any bad faith on the part of defendant with respect to the sonic drill in entering into the Option Agreement, or any intention at that time to steal and use the sonic drill information. It was Bodine who approached United concerning the drill. United originally had no knowledge of the drill. United expressed interest in the ASW device. United asked Bodine for separate options on the drill license and the ASW license. Bodine refused to separate them.

"The evidence is clear that United made a good faith effort to develop the drill, to explore the market for it, and to evaluate the chances of making it into a reliable commercial product. United provided Dernbach with a generous budget for study and development. Experts were consulted and retained. An extension of time for exercising the option was negotiated involving additional payments to Bodine. (Would defendant go to this effort and expense if it intended to steal Bodine's ideas?) United also negotiated for a separate agreement providing for a 'paid up option' price. This is not consistent with a claimed intention to steal the ideas. United assembled a review board of experts in its organization to assess the merits of further efforts on the drill. It also submitted the question to its top executives who determined that the risk involved did not justify the further expenditure of the company's funds on the project.

"2. To recover for the loss of a trade secret, plaintiff must prove that the defendant appropriated the secret for its own use, or disclosed the trade secret to others, so as to reduce or destroy its value. Neither was proved in this case as to the sonic drill. There is no evidence that defendant used Bodine's ideas to manufacture or sell the sonic drill or used the ideas in any other manner. No drill has ever been manufactured by defendant.

"It is claimed that the drawing of the jacketed drill (Exhibit 250) disclosed the design and destroyed the value of the drill. The Court finds no evidence, excepting the contention of Bodine, that the Exhibit 250 drawing contained information which would permit those to whom it was shown to create a jacketed drill, even if they had desired to do so. The drawing was not to scale. It disclosed only outside dimensions to permit potential users to determine if the proposed size would permit the use of such a drill in an oil well and if it could be transported on evailable [sic] equipment. The purpose was to explore the potential market for the drill. Such testing of the market was contemplated by the parties, as the Option Agreement reflects.

"3. There was no evidence that the value of the jacketed drill concept was either reduced or destroyed by the showing of the drawing. No person or company attempted to manufacture the drill from the drawing. No person or company attempted to sell drills in competition to Bodine. No person or company attempted to patent the drill or to interfere with Bodine's patent on the jacketed drill, which patent was obtained by Bodine without interference on July 9, 1963.

"There is no evidence that the information in Exhibit 250 was a cause of any damage to plaintiffs.

"4. The testimony of Bodine regarding the value of the jacketed drill was that it had the same value throughout the

year 1960. If so, then there is no evidence that the circulation of the drawing (Exhibit 250) in the first half of 1960 reduced the value of the drill. According to Bodine's testimony, the value of the jacketed drill decreased in 1961 after the receipt by him of the revised report of September, 1960, prepared by defendant. Bodine claimed that the adverse information in that report was the cause of the claimed decrease in value. (This report was given to no one other than Bodine by defendant.) There is no issue of trade libel in this case, so any such claim is beyond the issues of the fifth cause of action for fraud. It is noted that in the prior trial, Bodine, contrary to his present position, argued that the United report of June 1, 1960, destroyed the merchantability of the drill. The Court of Appeal held such claim to be 'outside the issues raised by the pleadings, the theory of the case, and the instructions to the jury . . .' (page 41).

"5. The evidence of witness William Thomas Rhame and Bodine as to the value of the drill was based on speculation and was contrary to reality. Rhame testified that a purchaser could be found for a license to produce the drill for $12,000,000. The weight of the evidence is to the contrary. Prior to 1960, several major companies, including Shell and Borg-Warner had spent sums totalling millions of dollars in developing the drill. All had given up the project. This was the reason Bodine had attempted to interest United (among several other large companies) in developing the drill. There is no evidence, excepting the speculation of Rhame, that in the drill's then state of development any prospective licensee would have entered into any agreement to pay outright any substantial sum for a license of the drill. While Bodine patented the drill in 1963, it has never been perfected. It is not in use today and never has been used in the oil drilling industry.

"To summarize, the Court finds the plaintiffs failed to sustain their burden of proof with respect to the sonic drill as to (1) the claim of fraud, (2) the claimed misappropriation by use or disclosure of the trade secret, (3) the proof of any damage to plaintiffs proximately caused by defendants' alleged misappropriation, and (4) the amount of any damages sustained by plaintiffs.

"The Court finds that the jury clearly should have decided for the defendants as to the liability and damage issues involving the jacketed sonic drill.

"Consideration of the ASW Device

"With respect to the ASW device, the special interrogatory answers reveal that the jury found damages in the total amount of $25,000, divided as $22,500 to Bodine and $2,500 to Soundrill Corporation. The punitive damages awarded were not broken down between the sonic drill and ASW. Presumably a portion of the total punitive damages was determined by the jury to arise out of United's actions relating to ASW.

"United indicated a different attitude toward the ASW device than it did toward the sonic drill. United, before entering into the Option Agreement, had requested of Bodine separate options on the drill and ASW. Bodine refused to agree to separate them. In September, after the Option Agreement had been extended three months, United again asked Bodine to separate the drill and ASW. At that time United offered to take a license on ASW and proposed extending the option on the drill for one year. Bodine refused.

"This Court has concluded from the evidence, contrary to the jury's conclusion, that United did not act in bad faith in entering into the Option Agreement (Exhibit 13), and did not enter into the agreement without any intention to exercise

the option for a license on either the drill or ASW. This Court has concluded that the offer of United in September, 1960, to take a license on ASW was evidence that it intended to act in good faith at all times.

"There is evidence in the record, however, from which the jury could have concluded that United intended to pursue the obtaining of an ASW contract with the Navy, whether or not it obtained a license from Bodine, and even if it violated some of Bodine's rights to the ASW concept. Promissory fraud, or the making of a contract with no intent to perform it at the time of its execution, must usually be proved by circumstantial evidence, such as the acts of the promisor subsequent to such execution.

"This Court would have decided contrary to the jury's implied determination of fraud as to ASW. But this Court cannot say that the jury is clearly wrong, or that the jury clearly should have reached a different decision on this point.

"Assuming liability as found by the jury with respect to ASW, the Court cannot disagree with the amount of compensatory damages in the total amount of $25,000 found by the jury. Assuming fraud as found by the jury, the jury in its discretion had the authority to award punitive damages. The amount awarded for both plaintiffs totalled $5,000,000. Undoubtedly the jury intended the amount to apply to United's activities concerning both the drill and ASW. The Court finds that such amount is clearly an excessive amount of punitive damages. Punitive damages should bear some reasonable relation to the figure awarded for compensatory damages. At the same time, punitive damages should be high enough to serve their purposes to punish the defendant and to deter similar conduct by others.

"The net worth of the defendant as shown on a 1976 balance sheet was $1,244,633,000.

"The Court in its independent judgment determines that fair and reasonable damages to plaintiff Bodine would be as follows:

"Compensatory damages	$25,000
"Interest from 9/27/61 to 9/27/77 (date of verdict) at 7% per annum	$28,000
"Punitive damages	$1,000,000
"Total damages	$1,053,000

"As previously indicated, the granting of the new trial as to plaintiff Bodine is subject to the condition that it is denied if plaintiff Bodine on or before June 5, 1978, files his written consent to a reduction of the judgment to $1,053,000, plus costs of suit, plus interest on the reduced judgment at 7% per annum from September 27, 1977."

Bodine did not consent to the reduced award and the order for new trial became effective.

The statement of reasons meets the requirements of Code of Civil Procedure section 657, showing judicial deliberation and allowing for meaningful appellate review. As stated in *Mercer v. Perez* (1968) 68 Cal.2d 104, 115, ". . . it will be sufficient if the judge who grants a new trial furnishes a concise but clear statement of the reasons why he finds one or more of the grounds of the motion to be applicable to the case before him. No hard and fast rule can be laid down as to the content of such a specification, and it will necessarily vary according to the facts and circumstances of each case."

The trial court's specification of reasons is more than adequate to meet the requirements of Code of Civil Procedure section 657. *Mercer v. Perez, supra*, 68 Cal.2d 104,

115 states: "To avoid overtaxing our already burdened trial courts, it will be sufficient if the judge who grants a new trial furnishes a concise but clear statement of the reasons why he finds one or more of the grounds of the motion to be applicable to the case before him." This, the trial court has done.

Bodine contends "The court's findings are entirely unsupported by the evidence, illogical, internally inconsistent, and demonstrate that in ruling on the motion for a new trial, the court failed to consider all the evidence in the case." Bodine also argues that the trial court didn't address all relevant issues or explain conflicting evidence.

It is not necessary for the trial court to engage in an exhaustive discussion of all the evidence presented at the trial. As stated in *Scala v. Jerry Witt & Sons, Inc.* (1970) 3 Cal.3d 359, 370:

"We are well aware of the many urgent demands on the time of our busy trial courts. We agree, for example, that to comply with section 657 'the trial judge is not necessarily required to cite page and line of the record, or discuss the testimony of particular witnesses,' nor need he undertake 'a discussion of the weight to be given, and the inferences to be drawn from each item of evidence supporting, or impeaching, the judgment.' (*Kincaid v. Sears, Roebuck & Co., supra*, 259 Cal.App.2d 733, 738, 739.)"

The statement of reasons as to the court's finding that damages were excessive was also adequate. The inferences the court drew in discussing the jury award were proper.

The jury awarded Bodine $4 million in punitive damages. The compensatory award of $5,422,500 was allocated between the drill and ASW claims in special findings. The jury found compensatory damages relating to the drill claim to be $5.4 million and compensatory damages relating to

the ASW claim to be $22,500. The award of punitive damages was not so allocated.

The trial court logically concluded the jury intended the punitive damages amount to apply to United's activities concerning both the drill and ASW.

Having ruled that the jury clearly should have found for defendant as to the liability and damage issues involving the drill, the trial court properly decided $4 million was clearly excessive in light of the jury's finding of $22,500 compensatory damages relating to ASW devices. The determination by the trial court that a punitive damage award of $1 million bore a more reasonable relation to the figure awarded for compensatory damages than $4 million was not an abuse of discretion.

Bodine argues that there is a fatal inconsistency between the trial court's finding on the one hand fraud sufficient to order a remittitur and on the other hand its ordering a new trial on the grounds of the insufficiency of the evidence of fraud. Such is not the case here. The trial court has the authority to impose conditions on its order granting a new trial. "A major reason underlying the power of the court to impose conditions on its order granting a new trial is judicial economy. If the affected party consents to either the reduced or increased amount of damages, expense, delay and uncertainty associated with needless retrials are avoided." (*Delos v. Farmers Insurance Group* (1979) 93 Cal.App.3d 642, 667.)

In this case, the trial court set forth the evidence relied on by Bodine to support the verdict, and gave a detailed statement of reasons why it determined such evidence to be insufficient. Bodine's argument is basically a factual disagreement with the trial court's reasons for granting the

order. Such a factual disagreement is not adequate to show that the specifications were insufficient in this respect.

As already noted, the trial court also explained in its specifications of reasons for granting a new trial in this case that although it would not have found fraud as to the ASW from United's attempt to obtain an ASW contract with the Navy, it could not say that the jury was clearly wrong in its implied determination of such fraud on that basis. This view of the evidence on fraud is not fatally inconsistent with the trial court's granting of a new trial on the ground of the insufficiency of the evidence of fraud on the part of United.

As stated in *Jiminez v. Sears, Roebuck & Co.* (1971) 4 Cal.3d 379, 387, "The determination of a motion for a new trial rests so completely within the court's discretion that its action will not be disturbed unless a manifest and unmistakable abuse of discretion clearly appears. This is particularly true when the discretion is exercised in favor of awarding a new trial, for this action does not finally dispose of the matter. So long as a reasonable or even fairly debatable justification under the law is shown for the order granting the new trial, the order will not be set aside."

The statement of reasons for the new trial order complies with Code of Civil Procedure section 657, and there is a substantial basis in the record to support the reasons given. The order granting a new trial as to Bodine is affirmed.

Having affirmed the new trial order, United's contentions of juror misconduct, erroneous jury instructions, unduly restricting discovery and various mistakes in evidentiary rulings need not be discussed.

United's Defense of Unclean Hands

United contends that although the trial court was correct in considering the defense of unclean hands, it committed error in not invoking it to bar recovery.

To apply the maxim that he who comes into equity must do so with clean hands, *Estate of Blanco* (1978) 86 Cal.App.3d 826, 832 states, " ' ". . . the misconduct must be intimately connected with the matter in which he seeks equitable assistance, and of *such a prejudicial nature to the rights of another that it would be inequitable to grant him that assistance*." ' " (Italics in original.)

United argues that Bodine should be denied relief due to presentation at trial of a forged receipt for patent applications, an altered airbill, false testimony, false denials of subsequent licensing arrangements, patent misuse and breach of the Services Agreement.

The forged receipt and altered airbill were produced from Bodine's records, but were introduced at trial by United over Bodine's objection. The trial court properly concluded that presentation of these documents and perjured testimony was not a valid basis for invoking the unclean hands doctrine. They were matters initially for the consideration of the jury and thereafter for consideration by the court in deciding post-judgment motions. *Pico v. Cohn* (1891) 91 Cal. 129, 133, states, ". . . we think it is settled beyond controversy that a decree will not be vacated merely because it was obtained by forged documents or perjured testimony." *Pico* further states at page 134, ". . . that the very object of the trial is, if possible, to ascertain the truth from the conflict of the evidence, and that, necessarily, the truth or falsity of the testimony must be determined in deciding the issue. The trial is his opportunity for making the truth appear. If, unfortunately, he fails, being overborne by perjured testimony, and if he likewise fails to show the injustice that has been done him on motion for a new trial, and the judgment is affirmed on appeal, he is without remedy."

The trial court also properly concluded that its findings of patent misuse by Bodine and his refusal to perform certain

ASW services upon the request of United pursuant to the provisions of the Services Agreement was not the type of conduct that would constitute a valid basis for invoking the defense of unclean hands.

United was knowledgeable in the patent law field. Whatever was included in the Option and License Agreement was after arms-length negotiations and agreed upon by United. As the trial court found, no deception was worked on United by Bodine in this regard.

Similarly, the Services Agreement dispute did not affect the equitable relations between the parties. It was a disagreement over whether or not Bodine was required to perform requested ASW services. When the Option and License Agreement was extended, United waived the ASW service requirements.

In denying United's motion for judgment notwithstanding the verdict as to Bodine, the trial court stated: "The grounds urged by defendant taken either separately or collectively in support of the claim of unclean hands do not justify a determination by the Court that a judgment should be entered at this time in favor of defendant."

The decision of the trial court was not an abuse of discretion. As stated in *Fibreboard Paper Products Corp. v. East Bay Union of Machinists* (1964) 227 Cal.App.2d 675, at pages 728-729, ". . . it is not every wrongful act nor even every fraud which prevents a suitor in equity from obtaining relief. The misconduct which brings the clean hands doctrine into operation must relate directly to the transaction concerning which the complaint is made, i.e., it must pertain to the very subject matter involved and affect the equitable relations between the litigants. Accordingly, relief is not denied because the plaintiff may have acted

improperly in the past or because such prior misconduct may indirectly affect the problem before the court."

The trial court, correct in considering the equitable defense of unclean hands, did not abuse its discretion in denying its application.

Denial of Motion by United for Judgment Notwithstanding the Verdict as to Bodine.

United contends there was no substantial evidence presented to support the verdict in favor of Bodine as to either the drill claim or the ASW claim, and that the motion for judgment notwithstanding the verdict should have been granted. United requests separate review as to the drill and ASW claims.

The well settled rules applicable to the trial court in deciding a motion for judgment notwithstanding the verdict are summarized in *Hauter v. Zogarts* (1975) 14 Cal.3d 104, 110, as follows: "The trial judge cannot weigh the evidence (*Quintal v. Laurel Grove Hospital* (1964) 62 Cal.2d 154, 159 [41 Cal.Rptr. 577, 397 P.2d 161]), or judge the credibility of witnesses. (*Knight v. Contracting Engineers Co.* (1961) 194 Cal.App.2d 435, 442 [15 Cal.Rptr. 194].) If the evidence is conflicting or if several reasonable inferences may be drawn, the motion for judgment notwithstanding the verdict should be denied. (*McCown v. Spencer* (1970) 8 Cal.App.3d 216, 226 [87 Cal.Rptr. 213]; *Hozz v. Felder* (1959) 167 Cal.App.2d 197, 200 [334 P.2d 159].) 'A motion for judgment notwithstanding the verdict of a jury may properly be granted only if it appears from the evidence, viewed in the light most favorable to the party securing the verdict, that there is no substantial evidence to support the verdict. If there is any substantial evidence, or reasonable inferences to be drawn therefrom, in support of the verdict,

the motion should be denied.' (*Brandenburg v. Pac. Gas & Elec. Co.* (1946) 28 Cal.2d 282, 284 [169 P.2d 909].)"

The duty of the appellate court in reviewing the decision of the trial court, as stated in *Quintal v. Laurel Grove Hospital, supra,* 62 Cal.2d 154, at page 159, is that ". . . the appellate court must read the record in the light most advantageous to the plaintiff, resolve all conflicts in his favor, and give him the benefit of all reasonable inferences in support of the judgment."

Discussing the drill claim, United argues there was no proof of bad faith in entering into the agreements, the trade secret was merely the narrow clearance between the drill jacket and the resonant bar, and that United neither used nor disclosed this secret. United's position is that the sketch of the drill used in the market survey did not reveal the trade secret, and there was no causal connection between United's conduct and any reduction in the value of the drill.

Bodine's view of the evidence is quite different. He contends there was proof of bad faith, the trade secret was the entire concept of the jacketed drill and the sketch disclosed several trade secrets. His position is that the trade secrets were used commercially by United, and this use, along with altering the June evaluation report and other circumstantial evidence, caused him damage.

Regarding the ASW device, United contends the evidence proves the trade secret, if any existed, was a combination of items previously disclosed to Douglas Aircraft Company, disclosed by Douglas to the Navy and was no longer secret. United further contends the trade secret was not disclosed or used in producing a scale model transducer, submitting proposals to the Navy or submitting an article written by a United engineer describing the ASW device that was published by the Navy. United also contends there was no proof

that a market ever existed for the ASW device or that United caused any damage to the claimed trade secret.

Bodine contends the evidence proved his ideas constituted a new and novel method of transporting underwater sonic energy, and that the device disclosed to Douglas Aircraft Company was materially different from the device in question. In addition, Bodine contends the evidence proved United used and disclosed trade secrets in performing the Navy contract which precluded him from thereafter obtaining other contracts.

In the present case, the evidence as to both the drill and ASW claims was conflicting and credibility was much in issue. In order for the trial court to have granted the motion for judgment notwithstanding the verdict, the evidence would have to have been weighed by it in order for it to have reached the conclusion there was no evidence of a substantial nature to support the verdict.

Viewing the record in the light most favorable to Bodine, the trial court did not abuse its discretion in denying United's motion for judgment notwithstanding the verdict as to both claims.

Granting of Motion by United for Judgment Notwithstanding the Verdict as to Soundrill.

The trial court granted a new trial as to Soundrill and then granted a motion for judgment notwithstanding the verdict. Soundrill contends this was error.

The standard of review on appeal from the granting of a motion for judgment notwithstanding the verdict is the same standard that is applied when the motion is denied. As stated in *Hale v. Farmers Ins. Exch.* (1974) 42 Cal.App.3d 681, 690, "On appeal from the judgment for defendant notwithstanding the verdict, the appellate court must read the record in the light most advantageous to the

plaintiff, resolve all conflicts in his favor, and give him the benefit of all reasonable inferences in support of the original verdict."

In granting the motion, the trial court found that, ". . . with respect to the verdict rendered by the jury in favor of Soundrill Corporation, the jury clearly should have rendered a verdict in favor of the defendant both as to the sonic drill and the ASW. The reason for this determination, in addition to the reasons previously stated, is that the evidence was insufficient to establish that Soundrill Corporation owned any portion of the trade secrets claimed to have been misappropriated. The only testimony on the subject was by Bodine. He vaguely referred to engineering designs, drawings, calculations, photos, and data from tests owned by Soundrill. According to Bodine and the recitals in the Option Agreement (Exhibit 13), the only patent owned by Soundrill was No. 2,554,005 and foreign counterparts thereof. No tests had been run on the ASW — it was an untested idea in the mind of Bodine. Soundrill was not a party to the Option Agreement. The agreement, Article II, paragraph 3, recites the ownership by Soundrill only of Patent No. 2,554,005 and foreign counterparts.

"Bodine, in the prior trial, testified that the Soundrill interest was valued at one-third of the total value of the trade secrets. In this trial, he valued such interest at one-tenth of the total. This inconsistency illustrates the lack of basis for his opinion.

"The patents for the jacketed drill and ASW, when subsequently obtained by Bodine, were in his name and not in the name of Soundrill. Soundrill had no rights under the Option Agreement to any income or profits. In fact, upon exercise of the option, all of its stock was to be transferred to United by Bodine, its sole shareholder.

"In short, there is no evidence that Bodine, the admitted author of the trade secrets alleged to have been misappropriated in this case, ever transferred any interest in them to Soundrill Corporation. Any award of damages to Soundrill could have no support in the evidence.

"The foregoing discussion of the lack of evidence as to any interest in the trade secrets by Soundrill Corporation is pertinent to the Court's ruling in granting the Motion for Judgment Notwithstanding the Verdict as to Soundrill Corporation. As indicated, this Court can find no substantial evidence in support of Soundrill's claim to ownership of a portion of the alleged trade secrets. Therefore, the granting of this motion appears proper."

It is clear the trial court granted United's motion for judgment notwithstanding the verdict as to Soundrill only after a thorough consideration of all the evidence.

A review of the record supports the determination that there was no substantial evidence presented to support a verdict in favor of Soundrill.

Bodine testified that Soundrill owned one drill patent issued in 1951 and owned "Engineering designs, drawings, calculations, data that formed the basis for the dimensions of those designs, metallurgical callouts on the drawings; the photographs of models that had been built; the actual models themselves that were still in our morgue; data from tests; a number of items very parallel to Bodine Soundrive but short of tooling for making models." He admitted most trade secrets related to the jacketed drill belonged to Bodine. He stated he could remember that knowledge of the optimum cyclic stress of 18,000 pounds per square inch was the property of Soundrill.

Concerning the ASW area, Bodine testified Soundrill owned ". . . oscillator design information; the information

of the engineering involved in resonating large metallic structures; how those large metallic structures behave when submerged in liquids; the design factors involved in shaft seals running in either salt water or mud; horsepower requirements to generate a strong, powerful, elastic resonant vibration in these big structures. A great deal of drill information was intertwined into the ASW for both companies . . . ."

Bodine stated that Soundrill had ceased being really active about 1956. He determined however, which entity owned what information by title blocks on drawings, dates, which file cabinets the information was stored in and by his own mental determinations.

As the court found, all subsequently obtained patents for the jacketed drill and the ASW device were in Bodine's name. Soundrill was not a party to the Option and License Agreement and under it had no rights to any income or profit.

Viewing the record in the light most favorable to the plaintiff, no proof of a substantial nature was presented of ownership of any trade secret by Soundrill. The granting of the judgment notwithstanding the verdict by the trial court was proper.

Having so ruled, the order granting Soundrill a new trial has no effect.

The order granting a new trial as to Bodine is affirmed.

The denial of judgment notwithstanding the verdict as to Bodine is affirmed.

The entry of judgment notwithstanding the verdict in favor of United as against Soundrill is affirmed.

Each party shall bear its own costs on appeal.

NOT FOR PUBLICATION IN THE OFFICIAL REPORTS.

THOMAS (Robert W.), J.*

We concur:

KLEIN, P.J.

COBEY, J.

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*Assigned by the Chairperson of the Judicial Council.

APPENDIX B.

Plaintiffs' Exhibit 13.

THIS AGREEMENT, made and entered into as of 1 January 1960, by and between A. G. BODINE (doing business as BODINE SOUNDRIVE COMPANY) of 3300 Cahuenga Boulevard, Los Angeles, California (hereinafter referred to as "BODINE") and UNITED AIRCRAFT CORPORATION, a Delaware Corporation with an office and place of business (Hamilton Standard Division) at Windsor Locks, Connecticut (hereinafter referred to as "United");

WITNESSETH:

WHEREAS, Bodine has for a number of years carried on as part of his business an extensive program of designing and developing patented vibratory devices for earthbore drilling operations; and

WHEREAS, Bodine and United are mutually interested in commercialization of such vibratory devices to realize their possible commercial potential for drilling and cutting in the oil and mining industries and for underwater sound generation and detection; and

WHEREAS, Bodine and United recognize that preparatory to undertaking an extensive commercialization program of the magnitude herein contemplated, it is desirable to make a preliminary investigation of the technical, engineering, marketing and management problems; and

WHEREAS, Bodine represents that he is the true, record and lawful owner of the patents and applications therefor listed in Exhibit A hereto;

NOW THEREFORE:

In consideration of the premises, the mutual covenants and agreements herein contained and of other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

1. The term "Field of this Agreement" shall mean:

Definitions

Sonic Earth Bore Drills

(a) Devices, methods and processes relating to earth bore drills employing vibratory principles, including but not limited to the following: (i) improved suspension systems effective to isolate or avoid the transmittal of sonic vibration frequencies into an earth drill string, said suspension systems being located between the lower terminal of the drill string and the elastic vibratory rod assembly comprising the actuation for the drill bit, of the type motivated by sonic vibratory generating means; said suspension systems being characterized by being connected at a node or by presenting a low acoustic impedance to said vibratory assembly with the frequency range of operation of said sonic vibratory generating means, as, for example, apparatus and methods disclosed in Bodine patent No. 2,903,242; and (ii) compliant coupling systems adapted to be located between a vibratory rod assembly normally comprising the motivating means for a sonic vibratory drill bit and a grapple of the type used in oil well jars, whereby said sonic vibratory drill assembly may be used to perform the function of fishing or of jarring loose any drill pipe or other drill tools which have become stuck in any hole or well in the earth, irrespective of the type of drilling operation resulting in the pipe or tool being stuck; as, for example, the apparatus and methods disclosed in Bodine patent No. 2,890,757; and any divisions, continuations, or continuations-in-part of any patent applications in the field.

Underwater Sound Generators and Detectors

(b) Devices, methods and processes relating to the subject conventionally known as underwater sound

generation, transmission, detection, and communication including but not limited to liquid media transmitters and transducers therefor, and antisubmarine sonar devices.

2. The term "Subject Inventions" shall mean any and all inventions in the Field of this Agreement owned or controlled by Bodine at any time, or in or to which Bodine has rights, including but not limited to (i) the Letters Patent and applications therefore listed in Exhibit A hereto and (ii) any inventions and discoveries heretofore or hereafter conceived or acquired by Bodine in the Field of the Agreement with the exception of U.S. patent No. 2,554,005 and foreign counterparts.

ARTICLE II

Bodine hereby covenants and warrants as follows:

Covenants and Warranties

1. That he is the true, record and lawful owner of the Subject Inventions and that they are free of any lien, charge or encumbrance and are not subject to any license, assignment or other grant except for this Agreement;

2. That the Subject Inventions listed in Exhibit A hereto constitute all of the patents or applications therefor (except U.S. patent No. 2,554,005 and its foreign counterparts listed in Exhibit B) as of the date of this Agreement, owned or controlled by Bodine at any time either personally or through a corporation, or by any subsidiary or affiliated company, or any employee or consultant of any of them which may be or have been found to be useful in the manufacture of devices for use in the Field of this Agreement;

3. That Soundrill Corporation is a corporation duly organized, validly existing in good standing under the laws of the State of California, and is the sole owner of all right, title, and interest free of all claims, liens, assignments or

other encumbrances, in and to U.S. Patent No. 2,554,005 and the foreign counterparts thereof listed in Exhibit B hereto;

4. That the copies heretofore delivered to United by Bodine of (i) the Certificate of Incorporation of Soundrill Corporation as amended to date and (ii) the By-Laws of Soundrill Corporation as amended to date and balance sheet of Soundrill Corporation certified, respectively, by the Secretary of State of California and the Secretary of Soundrill Corporation are true, correct and complete, and said balance sheet represents accurately the financial position of Soundrill Corporation and Soundrill Corporation has no liabilities, contingent or otherwise, except as therein represented;

5. That the only capital stock of Soundrill issued and outstanding on the date hereof consists of 500 shares of Common Stock ($10 par value per share) of an authorized capital of 2500 shares of said Common Stock all of which outstanding shares are validly issued, full-paid, non-assessable and registered in the name of Bodine and there are no options or commitments of any kind to issue any of the remaining authorized but unissued shares;

6. That Bodine owns 500 shares of Common Stock ($10 par value per share) of Soundrill, all of which shares are owned free and clear of any lien, charge, or encumbrance;

7. That there will be no material, adverse change in the condition of Soundrill, Inc. pending exercise of the purchase option specified in Article III below;

8. That Bodine will not sell or pledge any of the stock he owns in Soundrill or otherwise do any other thing which would impair the value of the purchase option herein granted; and

9. That Bodine shall indemnify and save United harmless at his own cost and expense, from and against any claims asserted against Soundrill Corporation, by third parties (including but not limited to the U.S. Government) arising out of business conducted by Soundrill prior to assignment of Bodine's stock in said corporation to United as provided in Article III hereof.

ARTICLE III

Preliminary Investigation of Feasibility

1. Effective immediately Bodine and United shall cooperate to investigate the technical, engineering, marketing and management problems which will need evaluation before the Subject Inventions can fully be exploited. Bodine agrees to make available to United such market studies, drill test results, engineering and other data he may have which is pertinent to a determination of the economic and technical aspects of apparatus embodying the Subject Inventions. Bodine further agrees to arrange for all books and records of Soundrill, Inc. to be made available and open at all reasonable times during business hours to the inspection of United and its duly authorized agents. United agrees to treat as confidential any information acquired through such inspection.

Activation or Termination of Licensee

2. Upon completion of the investigation, and, in any event, not later than six months after date of this Agreement, United shall notify Bodine, in writing either of its intention to undertake, or to abandon a program to exploit the Subject Inventions. Upon written notice by United within such period of its intention to undertake said program, (i) the rights and licenses hereinafter provided shall automatically become effective; and (ii) Bodine shall assign to United all of his right, title and interest in and to the outstanding stock of Soundrill Corporation. Neither said assignment nor any

of said licenses or rights shall become effective prior to such notice. Upon notice by United within such period that it intends to abandon said program, or upon failure of United to render any notice, this Agreement shall automatically terminate without further liability of either party to the other, excepting as provided in Section 5 of Article VIII hereof.

ARTICLE IV

Rights Granted

Exclusive Patent License

1. Bodine hereby grants to United upon the terms and conditions herein set forth and for the term of this Agreement the exclusive right and license, throughout the United States and its territories and possessions, and throughout all countries foreign to the United States, to manufacture, to use, to sell, and to rent any and all apparatus embodying any or all of the Subject Inventions, and to practice any and all methods embodying any or all of the Subject Inventions (said grant constituting all substantial rights to said Subject Inventions).

Right to Sublicense

2. United shall have the further right to grant any sublicense to any sublicensee throughout the world to do any act or thing which United is hereby granted a license to do, but specifically excepting Section 2 of Article X hereof; provided, that United shall be responsible to Bodine for payment of royalties as provided herein on all activities hereunder by every such sublicensee. Such royalties shall be calculated at the rate and in the manner set forth in Article VI hereof. Every such sublicense shall within its limits be subject to the same terms, conditions and all limitations as those herein binding upon United except that the royalty payments to be made to United by the sublicensee shall be within United's discretion subject to United's responsibility to Bodine for the payment of royalties as aforesaid.

ARTICLE V

Marking of Products

United and its licensees shall affix, or cause to be affixed, upon each item, device, apparatus or piece of equipment which is manufactured or caused to be manufactured under this Agreement a plate, tag or label setting forth the number and date of any patent and a notice of patents pending and such other information as may be appropriate under particular patent statutes. United shall maintain or cause to be maintained for accounting purposes a serial number system for all drills marketed hereunder.

ARTICLE VI

Payments

1. In full consideration of the rights and licenses granted to United by this Agreement as set forth in Articles III and IV hereof, United agrees to pay the initial sum of One Hundred Thousand Dollars ($100,000) to Bodine upon delivery of the notice prescribed in paragraph 2 of Article III hereof that United intends to exploit the Subject Inventions and thereafter to pay royalties to Bodine ~~on devices covered by any unexpired United States and foreign patents or applications therefor and manufactured by United or its sublicensees~~ at the following percentages of United's invoice prices:

Total Invoice Prices in Excess of	But not Exceeding	Percentage	Maximum for Bracket	Cumulative Maximum
$ -0-	$1,000,000	10%	$100,000	$100,000
1,000,000	2,000,000	9%	90,000	190,000
2,000,000	3,000,000	8%	80,000	270,000
3,000,000	4,000,000	7%	70,000	340,000
4,000,000	5,000,000	6%	60,000	400,000
5,000,000	Indefinite	5%		

The expression "invoice prices" as employed in this Agreement shall mean the prices (said term being inclusive of selling as well as rental prices) at which devices, methods,

uses or services embodying, or any part of which embodies Subject Inventions and parts therefor are invoiced by United or its sublicensees to customers. If United should have occasion to use such methods and devices commercially (but not experimentally) in its own behalf, then "invoice prices" shall include a computation based upon equivalent charges to the trade generally. Royalties shall become due from United to Bodine when such devices and parts therefor are invoiced, and shall be payable in accordance with Section 4 of this Article VI.

Minimum Payments

2. Commencing with delivery by United of the notice, prescribed in paragraph 2 of Article III hereof, of its intention to undertake exploitation of the Subject Inventions, United shall pay Bodine guaranteed minimum royalties in the amount of Ten Thousand Dollars ($10,000) per month until termination of this Agreement or until the expiration of the last United States patent on any Subject Inventions, whichever shall sooner occur. Such minimum payments shall be made regardless of the amount of gross revenue or the amount of deductions but all such unearned minimum royalty payments made to Bodine hereunder shall be cumulated and shall be credited against earned royalties until United shall have been reimbursed for the whole of such unearned minimum royalties, there being no right of reimbursement for such minimum payments other than out of earned royalties as aforesaid.

3. There shall be deducted from the total invoice prices before applying the percentages set forth in paragraph 1 of this Article VI:

(i) any and all amounts of money expended by United in connection with any patent litigation in respect of the Subject Inventions, including not only the expenses of such litigation but also any amount paid in settlement of any such litigation and/or paid to satisfy and judgment resulting from such litigation;

(ii) any and all amounts of money expended by United in relation to the claim of any person, firm or corporation, that such person, firm or corporation has some right, contractual or otherwise, with respect to the Subject Inventions, derived from Bodine and/or his assignors, including expenses of any litigation and moneys paid in satisfaction of any judgment arising from such claims; and

(iii) any amounts received by United from the U.S. Government under research and development contracts pertaining to apparatus covered by the Subject Inventions (i.e. such amounts shall not be included in invoice prices).

Reports of Royalties

4. During the month of July and every six (6) months thereafter during the term of this Agreement, United shall render to Bodine a statement showing invoice prices, any of said deductions and the quantity of all devices embodying Subject Inventions and parts therefor marketed by United or its sublicensees during the preceding six months' period, under the licenses granted by this Agreement and not accounted for in any previous statement, together with the amounts payable hereunder for royalties during said period. Any statement rendered by United to Bodine, if not questioned by Bodine within two (2) years after the receipt thereof, shall be deemed to be final and incontestable. At the time of rendering such statement, United shall pay to Bodine the full amount of royalties payable with respect to the period covered by such statement.

Access to Records and Plant

5. United shall keep and shall require its sublicensees to keep full and accurate books and records with respect to devices and parts therefor covered by Subject Inventions and manufactured and sold or rented by United and its sublicensees. Subject to applicable United States Govern-

ment security requirements, all activities concerning Subject Inventions hereunder and such books and records shall be accessible and open at all reasonable times during business hours to the inspection of Bodine and his duly authorized agents for the purpose of observing activities and verifying statements rendered by United under this Agreement. Bodine agrees to treat as confidential any information acquired through the inspection of United's books under the provisions of this Section 5.

ARTICLE VII

Diligence in Development

United covenants and agrees to use all reasonable diligence to develop and manufacture or have developed and manufactured or otherwise procure apparatus embodying the Subject Inventions in such quantities as the market therefor may require, and to develop and expand the market therefor and to supply the market or cause the market to be supplied therefor on such basis as United, in the exercise of reasonable business judgment shall deem appropriate to obtain the maximum practicable revenue therefrom.

ARTICLE VIII

Termination for Default

1. If at any time United shall be in default in making payment hereunder at the time and in the manner herein provided for, or shall be in default in observing or performing any other agreement or condition herein on the part of United to be observed and performed and any such default, either in payment or in observance or performance, shall not have been remedied within a period of sixty (60) days after written notice thereof shall have been given by Bodine to United in the manner herein provided, then in any such case Bodine shall have the absolute and unconditional right to terminate this Agreement by giving written notice of such

termination to United, and upon the giving of such notice this Agreement and any and all licenses and sublicenses hereunder shall terminate and come to an end. Any failure of Bodine to terminate this Agreement for any such default shall not be construed as a waiver of the right to do so for any continuation or repetition of such default.

Termination by United

2. This Agreement may be terminated by United at any time by delivery to Bodine of written notice of United's election so to terminate, whereupon this Agreement shall terminate ninety (90) days from the date of delivery of such notice.

3. No termination of this Agreement shall relieve United of any of its obligations with respect to the payment of royalties accrued before the effective date of termination.

Rights After Termination

4. In the event of any termination of this Agreement, United shall have the right, upon payment to Bodine of the amounts set forth in Article VI, to sell and continue to rent devices embodying the Subject Inventions, beyond the termination of this Agreement to the extent of any of its finished goods on hand or leased to others; provided, however, that Bodine shall have the first right to purchase any such devices, which are not required to fill contracts executed prior to such termination, at the same prices United is willing to sell the same to any other person.

5. In the event of any termination of this Agreement prior to 1 August 1980, (i) all rights and interest given or granted by Bodine to United under this Agreement shall ipso facto revert to Bodine; (ii) all trademarks and trade names solely in the earth drilling field relating to each of the said Subject Inventions together with the good will appertaining thereto (with the exception of any of the trade names and trademarks currently used for any purpose or owned by United prior to January 1, 1959) shall be assigned

to Bodine; (iii) all experimental drill models embodying Subject Inventions along with complete copies of all blueprints and data relating to said Subject Inventions shall be transferred and delivered to Bodine; and (iv) such termination shall automatically grant to Bodine an irrevocable, nonexclusive, royalty-free license under United's patents ~~then issued~~ and under applications therefor ~~then filed~~ for inventions relating to sonic devices embodying any of the Subject Inventions and made or acquired by United, or by its affiliates and others sublicensed hereunder prior to such termination, but excluding inventions for which United, or such affiliates or other sublicensees have paid a consideration to others. In the event of any termination on or after 1 August 1980, the only property which shall revert to Bodine shall be all right and title to Subject Inventions which are then unexpired. Regardless of the date of termination, the rights and remedies of the parties arising out of any information submitted by either to the other shall be only such as either may be entitled to under the applicable U.S. or foreign patent statutes under U.S. or foreign patents of the parties or their assigns.

ARTICLE IX

Term of Agreement

The expression "term of this Agreement" as used herein shall mean a period commencing on the date first above mentioned, and, unless sooner terminated pursuant to any provision hereof permitting such sooner termination, shall terminate with respect to the United States of America at the end of the full term of the last expiring patent issued by the United States on the Subject Inventions and shall terminate as to each country foreign to the United States at the end of the full term of the last expiring patent issued by such country on the Subject Inventions. The expression

"the term of this Agreement" as used in this Agreement, shall be related to the United States and to each foreign country issuing a patent or patents on the Subject Inventions, and, as so related, shall mean the period as above provided. It is the intention of the parties that the rights granted hereunder and the obligation of United to make payments under Article VI of this Agreement shall, unless sooner terminated pursuant to this Agreement, terminate as to each country with the expiration in each such country of the last expiring patent covering any of the Subject Inventions in that country and that there shall be no obligation to make any payments under Article VI of this Agreement with respect to the rights granted hereunder in such country after such termination. It is understood, however, that if any device or apparatus embodying, or any part of which embodies, any of such Subject Inventions or which, when installed, will be an integral part of any such device or apparatus, is manufactured, used, sold or rented by United, or its licensees in a country in which any patent covering any of such Subject Inventions has not expired, the payments required under Article VI of this Agreement shall be due in respect of such device or apparatus even though such device or apparatus is manufactured, used or sold in a country in which all patents covering such Subject Inventions have expired or in which such patents have never existed. For the purposes of this Agreement, an expired patent shall be deemed to include any patent which has been declared invalid pursuant to a final judgment of a court of competent jurisdiction.

ARTICLE X

Disclosure of Data

1. As promptly as possible, and in any event within three (3) months after the notice by United prescribed in paragraph 2 of Article III hereof that United intends to proceed with exploitation of the Subject Inventions, Bodine

shall make a complete disclosure to United of all drawings and manufacturing and engineering data and information in possession of Bodine relating to the design, development or manufacture of devices in the Field of this Agreement. Bodine shall also permit United at its expense to make copies of any and all such drawings and manufacturing and engineering data and information, or, at United's option, shall furnish United with such copies thereof as United may request in writing, in which case United agrees to reimburse Bodine for the cost of making such copies.

Consulting Assistance by Bodine

2. Bodine further agrees to make himself available to United for an average of one day per month for two (2) years after the date first above mentioned to furnish such consulting advice and assistance as United may request. United agrees to reimburse Bodine at the rate of one Hundred Dollars ($100) per day for consulting assistance furnished at United's request plus reasonable travelling and subsistence expense required in connection therewith. It is understood and agreed that Bodine shall not be required to travel outside of the city of his residence more than three times per year, nor to travel outside of the Continental United States, without Bodine's consent. Bodine agrees (i) so long as this Agreement remains in effect, United's right to receive Bodine's consulting assistance in the Field of this Agreement shall be exclusive; (ii) that he will disclose promptly to United all inventions, discoveries and improvements in the Field of the Agreement made or perfected by Bodine or by others associated with or employed by him; and (iii) that all such inventions, discoveries and improvements and information relating to the Field of the Agreement and results thereof shall not be published or divulged by Bodine regardless of source, prior to the lapse of five (5) years after the expiration (not termination) of this Agreement.

Notice of Inventions and Improvements

3. Whenever during the term of this Agreement Bodine shall make any inventions, improvements in, or modifications of design or construction of apparatus, in the Field of this Agreement or shall acquire any such inventions or improvements in respect of which Bodine is able to grant a right to manufacture and sell or rent, Bodine shall as soon as practicable furnish United with full particulars of such inventions, improvements or modifications together with drawings and specifications completely describing the same, and shall at such time notify United of the extent to which patent applications covering said improvements or modifications will be filed in the United States and in foreign countries. United shall have the right to file, prosecute and maintain at its own expense whatever additional patent applications in the United States and in foreign countries seem to it to be desirable. Title to said patent applications and patents issuing thereon shall be in Bodine but United shall receive licenses under said patents and patent applications as provided in this Agreement as fully as though said applications were filed by Bodine. United shall keep Bodine advised of improvements made or acquired by United in devices covered by the Subject Inventions and shall notify Bodine of patent applications filed and patents issued with respect to such improvements.

Excusable Delays

4. None of the parties hereto shall be charged with any liability for failure or delay in performing any of its obligations hereunder when, due to causes beyond the control of the parties so failing or delaying, such failure or delay cannot be remedied.

Arbitration

5. All disputes and differences arising out of this Agreement either before or after its termination shall be settled and finally determined by arbitration in the City of Hartford, Connecticut, in the following manner:

Each party to this Agreement shall appoint an arbitrator. If the two arbitrators so appointed cannot agree within two (2) weeks of their appointment, they shall select a third arbitrator within fifteen (15) days after the expiration of such two (2) weeks. The arbitrators shall meet and give opportunity to each party to this Agreement to present its case and witnesses, if any, in the presence of the other, and shall then make their award. Decision in writing of the three arbitrators, or any two of them, shall be final and binding upon the parties hereto, and judgment may be entered thereon in any court having jurisdiction. Such decision shall include the fixing of the expenses of the arbitration and assessment of the same against either or both parties. If either party fails to appoint its arbitrator within sixty (60) days after notice in writing requiring it to do so, the arbitrator appointed by the other party shall act for both, and his decision in writing shall be final and binding upon both parties, as if he had been appointed by consent.

If, in an appropriate case, the arbitrators appointed by the parties shall fail to select a third arbitrator, a third arbitrator shall be selected by the Superior Court for Hartford County, Connecticut, in accordance with the statute in such case made and provided.

6. All notices required or permitted to be given under this Agreement shall be sent by registered mail postage prepaid to the respective parties at the following addresses:

Mr. A. G. Bodine
3300 Cahuenga Boulevard
Los Angeles, California

United Aircraft Corporation
Hamilton Standard Division
Windsor Locks, Connecticut

Notices

Any notice sent in accordance with this Section shall be deemed to have been received by the party on the date on which it would in ordinary course of post be delivered. Either party may change its address by written notice to the other.

Successors

7. All of the promises and agreements herein contained by or on behalf of either party hereto shall bind and inure to the benefit of the respective successors, heirs and assigns of such parties whether so expressed or not. This Agreement and all of the rights and licenses arising hereunder may be assigned by United (i) to a successor approved by Bodine which approval shall not unreasonably be withheld; or, (ii) to a competent successor financially capable of fully pursuing that part of its business to which this Agreement appertains and without requiring Bodine's approval providing United guarantees the full performance hereof by said successor.

No Denial of Patent Validity

8. United agrees that neither it nor any of its licensees will deny the validity of any of the Letters Patent covering any of the Subject Inventions during the respective terms of such Letters Patent but not beyond two years following any termination of this Agreement, and additionally, excepting any of the claims of such Letters Patent which shall be held invalid by a final judgment of a court of competent jurisdiction, from whose decree no appeal is taken within the time required by law or from whose decree appeal is denied, in proceedings in which neither United nor any of its licensees contested the scope or validity of such Letters Patent.

Suits

9. Each party shall give the other notice of any suit or proceeding involving the validity or infringement of any patent licensed hereunder, whether or not such suit shall

have been commenced by a third person or by one of the parties hereto. United shall have the right, at its option, to begin, prosecute and to participate in any action for infringement of a patent licensed hereunder, either in its own name or in Bodine's name. Bodine agrees, at his own expense, for such matters as personal travel and subsistence, to furnish at United's request all reasonable assistance to United in connection with its participation in the conduct of any such suit or proceeding. All recoveries in any such suit shall become the property of United and shall be included in the total invoice prices subject to royalties under Article VI hereof.

Defense of Patent Infringement Suits

10. In the event Bodine is threatened with suit or is sued for infringement by reason of any act committed by United or its licensees, including such acts induced by Bodine, then United at its own expense shall defend Bodine and pay any judgment or settlement in respect thereof, provided United is notified promptly in writing of such suit and is given full charge of the negotiations for settlement and/or the defense of such suit. In the event that United shall fail to defend any such suit brought against Bodine, the reasonable expenses incurred by Bodine in connection with the defense or settlement of such suit shall be reimbursed to it by United.

Relationship of Parties

11. [Neither party] ~~Bodine~~ shall ~~not~~ have the power to bind [the other] ~~United~~ by any warranty or representation or in any other respect whatever, nor to incur any debts or liabilities in the name of or on behalf of [the other] ~~United~~; and the parties hereto shall not be deemed partners or joint venturers.

Connecticut Law

12. The construction of this Agreement shall be governed by the laws of the State of Connecticut.

Product Liability Suits

13. United will indemnify and hold harmless Bodine from and against any and all claims, actions and demands by or on behalf of persons other than United and all costs and expenses thereof, including attorney's fees, for alleged injuries to persons or property, arising out of or in connection with United's or its licensees' manufacture, use, promotion, sale and distribution of any product manufactured, or any services rendered, or caused to be rendered, pursuant to the provisions of this Agreement, except claims, actions and demands based upon infringement of patents owned by others in which event, the rights of the parties shall be governed by paragraph 10 hereof.

Supersedure of prior Negotiations

14. The terms and provisions herein contained constitute the entire agreement between the parties and shall supersede all previous communications, representations and agreements, either oral or written, between the parties hereto with respect to the subject matter hereof, excepting the options and agreements stated in Bodine's letter of 31 December 1959 to United; and no agreement or understanding varying or extending the same shall be binding upon any party hereto unless in writing and signed by the party sought to be charged, in which writing specific reference is made to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate (both of which shall be deemed to be an original) as of the day and year first above written.

BODINE SOUNDRIVE COMPANY,

By /s/ A. G. Bodine,

UNITED AIRCRAFT CORPORATION,

By /s/ Erle Martin
Vice President

Witnesses:

Eva Petress
Marion Pastor

Attest:

Erwin L. Baldwin,
Asst. Secretary

EXHIBIT A

List of Patents Owned by A. G. Bodine

Sonic Drill Patents

United States

Sonic Earth Boring Drill with Self-Resonating Vibration Generator	2,713,472	July 19, 1955
Sonic Earth Boring Drill	2,672,322	Mar. 16, 1954
Earth Boring Apparatus with Acoustic Decoupler for Drilling Mud	2,717,763	Sept. 13, 1955
Deep Well Drill with Elastic Bit Coupler	2,815,928	Dec. 10, 1957
Suspension System for Sonic Well Drill or the Like	2,903,242	Sept. 8, 1959
Sonic Earth Bore Drill	2,903,240	Sept. 8, 1959
" " " "	2,800,301	July 23, 1957
" " " "	2,828,944	Apr. 1, 1958
" " " "	2,771,270	Nov. 20, 1956
" " " "	2,805,044	Sept. 3, 1957
" " " "	2,776,113	Jan. 1, 1957
Mud Decoupler (Sonic Drill)	2,824,718	Feb. 25, 1958
Turbine " "	2,806,672	Sept. 17, 1957
Turbine " "	2,800,296	July 23, 1957
Turbine " "	2,774,721	May 8, 1956
Bearing " "	2,776,173	Jan. 1, 1957
Torsionally Oscillating Drill	2,803,433	Aug. 20, 1957
Complaint Coupling . . . Sonic Drill	2,890,757	June 16, 1959
Geophysical Transducer	2,745,507	May 15, 1956

Applications:	*Ser. No:*	*Filed:*
Polyphase Sonic Earth Bore Drill	442,805	July 12, 1954
Method for Sonic Earth Boring	739,313	June 2, 1958
Foreign		
Sonic Earth Boring Drill	1,026,255	Germany
" " " "	904,765	"
" " " "	394,905	Belgium
" " " "	83,191	Holland
" " " "	632,876	Great Britain
" " " "	535,702	Canada
" " " "	157,116	Australia
" " " "	21	Aden
" " " "	95/400/47	Iraq
" " " "	67/400/51	Iraq
" " " "	1512	Iran
" " " "	6207	Israel
" " " "	813,590	Great Britain

EXHIBIT B

List of Patents Owned by Soundrill Corporation

Sonic Drill Patents

United States

Earth Boring Apparatus	2,554,005	May 22, 1951

Foreign

An Earth Boring Apparatus	87,327	Argentina
Improvement in or Relating to Earth Boring Apparatus	45,197	India
Improvements in or Relating to Earth Boring Apparatus	347	British Guiana
Improvements in or Relating to Earth Boring Apparatus	52,932	Mexico
Improvements in or Relating to Earth Boring Apparatus	1,917	Iran
A Novel Earth Boring Apparatus	333	Syria
Improvements in or Relating to Earth Boring Apparatus	5,005	Venezuela
A Novel Earth Boring Apparatus	396	Lebanon
Improvement in Apparatus for Boring Earth, and Specially Rock Formations	476,783	Italy
Improvements in or Relating to Earth Boring Apparatus	41,767	Brazil
Improvements Relating to Earth Drilling Apparatus	6,763	Columbia
Improvements in or Relating to Earth Boring Apparatus	1,041,819	France

Improvements in or Relating to Earth Boring Apparatus	102,825	Pakistan
Improvements in or Relating to Earth Boring Apparatus	76	Egypt
Improvements in or Relating to Earth Boring Apparatus	699,265	Great Britain
Earth Boring Apparatus	308,818	Switzerland
Improvements in or Relating to Earth Boring Apparatus	260	Panama

Appendix

Office-Supreme Court, U.S.
FILED
AUG 12 1981
ALEXANDER L. STEVAS,
CLERK

81-224

No. .....

IN THE

Supreme Court of the United States

October Term, 1981

UNITED AIRCRAFT CORPORATION,

Petitioner,

vs.

ALBERT G. BODINE, JR., individually and doing business as Bodine Soundrive Company,

Respondent.

Supplemental Appendix to Petition for Writ of Certiorari to the California Court of Appeal, Second District.

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APPENDIX.

In its Petition for Writ of Certiorari filed with this Court on August 3, 1981, the listing of parent companies subsidiaries (except wholly owned subsidiaries) and affiliates of petitioner United Aircraft Corporation, required under the Rules of the Supreme Court of the United States, Rule 28.1, was inadvertently omitted.

Petitioner United Aircraft Corporation, now known as United Technologies Corporation, has no parent companies. Its affiliates and non-wholly owned subsidiaries comprise the following concerns.

Essex Electricas Industriales S.A. de C.V. (Mexico)

Aismalibar S.A. (Spain)

Mechanismos Auxiliares Industriales S.A. (Spain)

Essex Transducers Corporation, a Delaware corporation

Turborreactores S.A. de C.V. (Mexico)

ISS de Mexico S.A. de C.V.

Otis Europe S.A. (France)

Ascendes S.A. (Luxembourg)

Ascenseurs Clerebout S.A. (Belgium)

L'Enterprise Telephonique (France)

Le Telephone Automatique (France)

Teletechnique (France)

Establissements Camus (France)

Otis Moroc S.A. (France)

Slohr-Otis Aufzuege G.m.b.H. (West Germany)

Jan. Hamer Company (Netherlands)

Guide Rails Pty. Ltd. (Australia)

Freissler Otis Machinen und Aufzugefabrik (Austria)

Otis Elevator Company S.A.E. (Egypt)

Saxby S.A. (France)
Manuservice S.A.R.L. (France)
Matral Saxby Manutention S.A. (France)
Construction Mechaniques et Hydrauliques de Vendee S.A. (France)
Otis Elevator Company (India) Ltd.
Nippon Otis Elevator Company (Japan)
Ascensores Otis S.A. (Peru)
Otis Elevator Company Ltd. (South Africa)
Zardoya Otis S.A. (Spain)
Ascenseurs Gendre-Otis S.A. (Switzerland)
National Trading Corp. S.A.L. (Lebanon)
Otis Elevator Company (Kuwait)
Porvair Limited (United Kingdom)
Fishburn Printing Ink Company Ltd. (United Kingdom)
Precilec S.A. (France)
Pratt & Whitney Aircraft of Canada Limited
SCAN Marine Inc. of Canada
S.N.E.C.M.A. of France
UTIO Nigeria Ltd.
Nostosiirto Oy (Finland)
United Technologies Saudi Arabia Ltd.

Opposition

Office-Supreme Court, U.S.
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No. 81-224
IN THE

Supreme Court of the United States

October Term, 1981

UNITED AIRCRAFT CORPORATION,

Petitioner,

vs.

ALBERT G. BODINE, JR., individually and doing business as Bodine Soundrive Company,

Respondent.

RESPONDENT'S OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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No. 81-224

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UNITED AIRCRAFT CORPORATION,

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vs.

ALBERT G. BODINE, JR., individually and doing business as Bodine Soundrive Company,

Respondent.

RESPONDENT'S OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

Respondent, Albert G. Bodine, Jr., respectfully submits his brief in opposition to United's petition for a writ of certiorari to review the opinion of the California Court of Appeal, Second District, entered in this proceeding on March 4, 1981.

STATEMENT OF THE CASE.

Respondent, Albert G. Bodine, Jr. (Bodine), is a licensed engineer and physicist by profession. Over the past forty years, in association with his wholly owned corporation, Soundrill Corporation, he has made his living by inventing, developing, and licensing certain products and ideas in the specialized field of acoustic engineering (R.T. 117-120).

In 1945 he conceptualized the utilization of sonic energy to drill for gas and oil (R.T. 123-124). In conjunction with

Shell Oil, Sonic Services, Inc., and Borg-Warner, Bodine's ideas over the next fourteen years were developed into a sonic drill having the capability of drilling from two to three times faster than the conventional drilling methods in hard rock formations (R.T. 3574). Over eight million dollars was spent to bring this product its then state of development (R.T. 1390).

In 1959 Bodine invented an improved form of sonic drill. It was called a "jacketed sonic drill" and differed substantially from prior models (R.T. 231; 235). It was a trade secret at the time.* In July 1963, a patent issued on limited elements of the concept (Exhibit 242).

Also in 1959, Bodine and his corporation Soundrill originated and developed a method for transmitting low frequency, high powered underwater sound waves as "fallout" technology from developing the drill (Exhibits 37, 137(e)). Such technology was also a trade secret at that time.* A patent issued covering some of such technology in May 1962 (Exhibit 106).

In 1960, being particularly interested in Bodine's methods for transmitting low frequency, high powered underwater sound waves, United Aircraft Corporaton (United) approached Bodine. United proposed some form of joint effort to obtain a contract with the Navy utilizing his ideas and technology (Exhibit 1). He also mentioned tax problems (R.T. 255; Exhibit 3). He stressed that the application of his principles to the ASW area was a new science and that great reliance would therefore have to be made on the data accumulated from his efforts in developing the drill. He stated that the technology was practically identical between the two, and that if United wanted a license in the ASW

---

*Both ASW and the "jacketed sonic drill" were trade secrets at the time of the misappropriation.

area, it would have to assume the right to develop the sonic drill as well (R.T. 275-277). He declared that there was a practical advantage in developing the devices together. Because of their interrelationship, finding a solution to problems in one device would assist development efforts in the other (R.T. 277).

Being presented in this fashion, and only after United's in-house attorneys and anti-trust specialists reviewed the arrangement and offered recommendations, the parties entered into an option agreement (R.T. 4339). Pursuant thereto, United was to have an option period to investigate the technology in these two related fields in order to determine whether it desired to license and use Bodine's ideas (Exhibit 15). The option expired September 30, 1960, after United had thoroughly examined Bodine's engineering data and techniques.

This action was filed in 1962. Bodine and Soundrill Corporation alleged in their complaint that United, in entering into the option agreement, did not do so in good faith, and, at the time the agreement was entered into, had no intention of ever exercising the option. It was alleged that United entered into the option agreement for the purpose of obtaining information concerning plaintiffs' trade secrets and for the purpose of simply stealing and using such secrets without licensing them (C.T. 9-16).

In the first trial in 1968, a jury returned a verdict in plaintiffs' favor in the total amount of $13.5 million (C.T. 270). After such verdict, a new trial was granted on defendant's motion. That order was affirmed on appeal (Second Civil No. 35155).

United then moved for an order that the matter be submitted to arbitration. This motion was denied and in 1975

a second appellate decision affirmed this decision (2 Cal.App.3d 940).

Prior to the second trial, United, for the first time, asserted that it was entitled to raise the defense of "unclean hands". After various motions on the subject, the trial court held that such defense was equitable in nature and therefore should be decided by the court after the jury had returned its verdict.

On plaintiffs' cause of action for fraud, the jury returned a verdict in plaintiffs' favor in the total amount of $15 million. Actual damages were assessed at $6,025,000.00. Punitive damages amounted to $5,000,000.00 and the jury awarded an additional sum of $3,975,000.00 for prejudgment interest (C.T. 2354).

Following this verdict, United's defense of unclean hands was briefed, argued and decided in favor of plaintiffs and against United (C.T. 2271). With respect to United's claim, asserted under the unclean hands doctrine, that plaintiffs misused and abused their patent rights, the court found:

> "Whatever was included in the option and license agreement was after arms-length negotiation and agreed to by defendant. There was no deception in this regard worked on defendant by plaintiff Bodine. Defendant was knowledgeable in the patent law field". (C.T. 2348, lines 12-16)

The court also declared that:

> ". . . any conduct by a plaintiff in this case is not conduct which would constitute a valid basis for invoking the unclean hands doctrine as a defense". (C.T. 2349, lines 1-3)

After judgment was entered in plaintiffs' favor, defendant United moved for a new trial and a judgment notwithstanding the verdict with respect to both plaintiffs (C.T. 2363-2365).

On April 27, 1978 the court conditionally granted defendant's motion for a new trial upon Bodine's failure to consent to a remittitur to $1,053,000.00 plus costs and interest. $1,000,000.00 of this sum was allocated as punitive damages. The court granted defendant's motion for a judgment notwithstanding the verdict with respect to Soundrill but denied this motion with respect to plaintiff Bodine (C.T. 2881-2882).

After Bodine declined the reduced award and the new trial order became effective, all parties appealed. The recent decision by the Appellate Court on March 4, 1981, affirmed all rulings of the trial court (United's petition, Appendix A). United petitioned the Court of Appeal for a rehearing and also petitioned for a hearing in the California Supreme Court. Both petitions were denied.

United's petition for a writ of certiorari seeks to review the decision of the Appellate Court which affirms the trial court's decision that plaintiffs should not be denied relief based on the defense that plaintiffs misused certain patent rights, which defense was presented only as a contention under the unclean hands doctrine.

JURISDICTION.

Jurisdiction to grant United's petition for a writ of certiorari can only be invoked pursuant to 28 U.S.C. 1257(3), which reads as follows:

> "Final judgments or decrees rendered by the highest court of a State in which a decision could be had, may be reviewed by the Supreme Court as follows:
>
> * * *
>
> (3) By writ of certiorari, where the validity of a treaty or statute of the United States is drawn in question or where the validity of a State statute is drawn in question on the ground of its being repugnant to the

> Constitution, treaties or laws of the United States, or where any title, right, privilege or immunity is specially set up or claimed under the Constitution, treaties or statutes of, or commission held or authority exercised under, the United States''.

A further requirement is that the federal or constitutional question sought to be reviewed must have been raised, decided and necessary for a determination of the case. As this court held in *Williams v. Kaiser* (1945) 323 U.S. 471, 477, 65 S.Ct. 363, 89 L.Ed. 398:

> ''It is a well established principle of this court that before we will review a decision of a state court it must affirmatively appear from the record that the federal question was presented to the highest court of the state having jurisdiction and that its decision of the federal question was necessary to its determination of the cause (citations omitted) and where the decision of the state court might have been either on a state ground or on a federal ground and the state ground is sufficient to sustain the judgment, the court will not undertake to review it (citations omitted)''.

In the case at bench, these requisites were not met.

A. United Has Failed to Demonstrate How Jurisdiction Can Be Invoked Under 28 U.S.C. 1257(3).

In its statement of jurisdictional facts, United merely claims:

> ''The Court of Appeal refused to compel the trial court to bar the plaintiff from recovery on the ground that he abused and misused his patents.'' (United's petition Page 2)

Such ruling does not fall within the purview of 28 U.S.C. 1257(3). The Court of Appeal decision (Appendix A to United's petition) does not involve the validity of a treaty or statute of the United States or the validity of a state

statute. Nor does it deny any title, right, privilege or immunity "specially set up" or claimed under federal law. The decision at issue merely affirmed that the defense of unclean hands should not apply under state law to bar Bodine's action for the fraudulent misappropriation of his trade secrets. The decision did not deny any rights claimed under federal law because, as this court held in *Kewanee Oil Co. v. Bicron Corp.* (1974) 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315, the states are free to regulate the area of trade secret law, federal preemption not being justified.

B. The Question of Federal Preemption Was Neither Raised nor Decided.

United has also failed in its statement of jurisdictional facts to show that a federal question was presented, much less decided, either in the trial court or in the California Court of Appeal. In fact, United has candidly admitted first becoming aware of the possible question of federal preemption of state trade secret law after the Appellate Court rendered its decision March 4, 1981. Reference is made to United's recent motion filed in the California Appellate Court for a stay of issuance of remittitur; a copy of the declaration filed in support thereof is set out as Appendix A hereto. At page 3 of the declaration, under penalty of perjury, United's counsel admits that United first became "aware" of the preemption argument or objection:

> ". . . after studying the decision and opinion of March 4, 1981."

C. The Decision Not to Bar Recovery Was Based on Grounds Other Than the Question of Federal Preemption of State Trade Secret Law.

United furthermore has failed to show that the decision complained of was necessary to the determination of the issue before the court. The appellate opinion discloses that

subject decision was limited to the application of the unclean hands doctrine. In deciding whether to apply this defense, the court cited the rule that:

> "To apply the maxim that he who comes into equity must do so with clean hands, . . . 'the misconduct must be intimately connected with the matter in which he seeks equitable assistance, and of *such a prejudicial nature to the rights of another that it would be inequitable to grant him that assistance*.' "
> (United's petition, Appendix A, p. 20)

The court also cited the rule that:

> " '. . . it is not every wrongful act nor every fraud which prevents a suitor in equity from obtaining relief. The misconduct which brings the clean hands doctrine into operation must relate directly to the transaction concerning which the complaint is made, i.e., it must pertain to the very subject matter involved and effect the legal relations between the litigants. Accordingly, relief is not denied because the plaintiff may have acted improperly in the past or because such prior misconduct may indirectly affect the problem before the court.' "
> (United's petition, Appendix A, p. 21)

In considering the issue of patent abuse in particular, the court held that the trial court had properly concluded that such conduct was not the type that would constitute a valid basis for invoking the doctrine. In support, the court referred to the trial court's finding of fact and stated:

> "United was knowledgeable in the patent law field. Whatever was included in the option and license agreement was after arms-length negotiations and agreed upon by United. As the trial court found no deception was worked on United by Bodine in this regard."
> (United's petition, Appendix A, p. 21)

The court thereafter correctly concluded that any patent abuse on Bodine's part did not affect the equitable relations between the parties (United's petition, Appendix A, p. 21).

The court thereby determined that such conduct was not prejudicial to United, not transactionally related to plaintiffs' cause of action, and that therefore the trial court did not abuse its discretion in denying the application of the defense of "unclean hands." (United's petition, Appendix A, p. 22)

In conclusion, because neither a constitutional question nor a question of federal preemption of state trade secret law was raised, and because the decision of the Court of Appeal was based on state law, the United States Supreme Court lacks jurisdiction to grant United's petition for a writ of certiorari.

REASONS FOR DENYING THE WRIT.

A. UNITED'S ARGUMENT THAT THE APPELLATE DECISION PERMITS INVENTORS WHO PARTICIPATE IN PATENT ABUSE TO RECOVER THE EQUIVALENT OF ROYALTIES MATERIALLY DISTORTS THE FACTS OF THE CASE.

To make it appear that the plaintiff inventor in this case has enjoyed the benefits of patent law, while abusing these conferred rights, United submits that all inventions and trade secrets involved in this litigation were eventually patented and that Bodine received the equivalent of royalties as his measure of damages (United's petition, pages 13, 14, 16 and 17). These contentions are false.

1. The Record Discloses That the Patents Which Issued Did Not Cover All Items Misappropriated or Otherwise Destroyed by United.

As demonstrated by the record, the 1963 patent concerning Bodine's techniques for sonic drilling did not cover all elements of Bodine's jacketed drill (R.T. 965). Bodine testified to at least ten items that he could recall "offhand" that were trade secrets in 1960 and were not later patented (R.T. 967-982). On cross-examination, he emphasized that this list represented only "some" trade secrets not patented. He stated that there were many more, "more than I could remember at one standing or sitting." (R.T. 3984)

The same was true for the ASW field. Bodine testified that his 1962 patent did not contain all techniques and trade secrets transmitted to United concerning his ideas to build a transducer capable of transmitting low frequency, high powered sound waves to detect submarines at long ranges (R.T 1039).

Bodine's testimony regarded both areas was uncontroverted and supported by a comparison of the patents that

issued (Exhibits 242, 106) to the extensive amount of proprietary materials transmitted to United during the option period (Exhibits 141, 26).

2. The Record Also Discloses That the Damages Awarded in This Case Were Not Tantamount to Recovering Royalties, but Represented the Depreciation and Destruction in Value of Bodine's Trade Secrets Caused by United's Conduct.

As recognized by the Court of Appeal in its Statement of the Case, this action was brought for the recovery of the *value* of certain inventions, models, drawings, engineering and scientific information, trade secrets, material, data and property alleged to have been fraudulently obtained, exploited and retained by United Aircraft Corporation without payment (United's petition, Appendix A, page 1).

During trial, plaintiffs introduced evidence that the sonic drill in 1960 was worth between $10 million and $12 million. Bodine, as owner, testifed that the drill was worth $10 million based on development cost, market studies performed by Borg-Warner and the sale price agreed to after negotiations with United prior to entering the option agreement (R.T. 925-926). Plaintiffs also called an expert witness. Dr. Rhame testified that in his opinion the jacketed drill had a market value of $12 million in 1960. He testified that he derived this figure by relying on, and assuming as true, the conclusions reached in United's drill report regarding the probability of successful development and the probable sales, costs and profit projections inherent in the project (R.T 3800-3805). He explained that his figures were determined using a combination of three approaches, then discounting for risk (R.T. 3805-3823). All three approaches stated value as a function of market demand and assumed

a different contractual relationship with a party who would financially assist development efforts (R.T. 3805-3823.).

Insofar as Bodine's ASW materials were concerned, testimony was had that this accumulation of trade secrets was worth $10 million in 1960 (R.T. 925). This opinion was based both on the income expected from licensing these techniques and the sale price negotiated with United prior to entering the option agreement (R.T. 928). Bodine also testified to a contract with North American wherein he would receive an initial fee of $25,000.00 in the event the company could obtain a Navy contract utilizing some of his concepts (Exhibit DU).

After his relationship with United, Bodine testified that he was never able to license or sell these concepts (R.T. 1401, R.T. 3031). This was due to several factors.

First, United had destroyed the confidentiality of these trade secrets. During the option period, United circulated a brochure and drawing to 22 oil-related companies showing the drills' inner workings and described how it operated. Furthermore, after the option period, United published a description of Bodine's ASW ideas and techniques in the U.S. Navy Journal of Underwater Acoustics, taking the credit for such accomplishments for the admitted purpose of establishing prestige (R.T. 2923, R.T. 2928-2929).

Second, United used Bodine's ASW materials not only without authority or payment, but in competition with Bodine after the option period such that he was prevented from obtaining the $25,000 fee he had negotiated with North American (R.T 2187-2188).

Third, United materially altered its drill evaluation report to reflect negative findings knowing that Bodine would have to use this report in marketing his drill concept to future companies (R.T. 4887, R.T. 6693-6696).

With this evidence before the court, the jury awarded compensatory damages in the total amount of $6 million for the loss in value of plaintiffs' drill trade secrets and $25,-000.00 for the loss in value of plaintiffs' ASW trade secrets. In addition, the jury awarded $5 million in punitive damages and $3,975,000.00 for prejudgment interest (C.T. 2354).

Consequently, the sums awarded Bodine represent damages caused by United's fraudulent and unconscionable activities. The award in no manner was based on any benefits conferred under patent law.

Furthermore, it is erroneous to argue that an inventor is conferred some sort of financial benefit by the granting of a patent. It is the market that determines value, not the patentability of the item in question. A trade secret may possess substantial value, while a patent may have none.

In this case, United destroyed the market for Bodine's products when they were trade secrets. Years later, when patents issued on limited elements thereof, the situation did not change. The value of Bodine's products were not rehabilitated merely because patents issued.

B. TO COMPEL THE APPELLATE COURT TO BAR BODINE FROM BRINGING HIS ACTION FOR FRAUD WOULD VIOLATE THE RULE THAT, TO INVOKE THE DEFENSE OF UNCLEAN HANDS, THE MISCONDUCT MUST RELATE DIRECTLY TO THE RIGHTS BEING ASSERTED.

United, in its petition, urges that this court should foreclose any recovery by Bodine by requiring the California Appellate Court to apply the defense of unclean hands, without considerations of discretion, because of the finding that Bodine participated in patent abuse and misuse. As authority, United relies on patent cases wherein the court refused to permit recovery if the owner had misused the patents at issue.

The rule that a court will refuse to enforce patent rights if misused is an extension of the equitable doctrine of "unclean hands" to the patent field. *United States Gypsum Co. v. National Gypsum Co.* (1957) 352 U.S. 457, 465, 77 S.Ct. 490, 1 L.Ed.2d 465. The rule is stated as follows:

> ". . . the courts will not aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse. . ." (*United States Gypsum Co., supra,* page 465)

The rationale for this rule, and the rationale underlying the unclean hands theory in general, is that equity will refuse to lend aid to enable a party to reap the benefits of his misconduct. Since, in patent cases, the relief is based upon the rights and privileges granted a patent holder by the government, the courts simply refuse to enforce these rights if abused. If, on the other hand, the misconduct is collateral to the relief being sought, the court finds it inequitable not to grant the relief sought.

The court in *Republic Molding Corporation v. B.W. Photo Utilities*, 319 F.2d 347 (9th Cir. 1963), at page 349, cites *Keystone Driller Company v. Excavator Company* (1933) 290 U.S. 245, 54 S.Ct. 146, 147, 78 L.Ed. 293, for the following rule:

> ". . . misconduct in the abstract, unrelated to the claim to which it is asserted as a defense, does not constitute unclean hands. The concept invoking the denial of relief is not intended to serve as punishment for extraneous transgressions, . . ."

Further, the court stated at page 349:

> "What is material is not that the plaintiff's hands are dirty, but that he dirtied them in acquiring the right he now asserts, or that the manner of dirtying renders inequitable the assertion of such rights against the defendant."

In the instant case, Bodine claims damages caused by the fraud practiced upon him by United and for the misappropriation of trade secrets. He does not seek to enforce rights acquired either under patent law or by engaging in conduct contrary to public policy. Therefore, even assuming that plaintiffs improperly participated in a mandatory package licensing arrangement or required payment of royalties on expired patents, these activities are entirely unrelated to Bodine's cause of action.

C. A RULE BARRING AN INVENTOR FROM RECOVERING DAMAGES FOR THE FRAUDULENT MISAPPROPRIATION OF TRADE SECRETS IF HE MISUSES ANY PATENT RIGHTS WILL NOT DISCOURAGE INVENTORS FROM SEEKING PATENTS.

United's petition urges only one reason why this court should retract from its prior decision that neither partial nor complete preemption of state trade secret law is justified or appropriate, as announced in *Kewanee Oil Co. v. Bicron Corp.* (1972) 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315. United argues that if an action for the fraudulent misappropriation of trade secrets is not barred when the plaintiff has in some manner abused patent rights, the effect would be to discourage inventors from seeking patents. United claims that an inventor who conceivably believes he may have engaged in patent abuse will choose to allow his invention to remain as a trade secret because, as a trade secret, he will not be barred from bringing an action for misappropriation. If, on the other hand, he patents the device, United submits his conduct in abusing his patent rights will bar any recovery for infringement.

The error of United's reasoning is that, if the invention in question is currently a trade secret, any patent misuse or abuse would necessarily have to involve a different invention or concept, one that is patented. If this is so, why would

he be deterred from seeking a patent on his most recent discovery?

If he patents the device, and is later caused to bring an action for infringement, any defendant urging as a defense that the patent holder had misused or abused *other patents* will be unsuccessful. This follows from the principle previously discussed and consistently followed by this court. Improper conduct unrelated to the rights which a party seeks to enforce is not a reason for denying relief.

CONCLUSION.

Permitting Bodine to recover damages for the misappropriation of trade secrets does not violate public policy in any manner. To the contrary, such a decision helps to foster and promote invention and the commercial use of trade secrets prior to being patented. If inventors were not permitted to seek relief in a state court for the fraudulent misappropriation of their trade secrets, they would be deterred from communicating any ideas to anyone for fear that these parties would simply misappropriate such secret, without any remedy for damage, if the inventor had participated in any manner in misusing unrelated patent rights before the patent was issued.

Cases cited by petitioner on the subject of possible patent abuse or illegal tying of patents involve existing patents, not trade secrets. When, in 1960, United perpetrated its fraudulent scheme, there were no patents on the concepts misappropriated by United. United has not cited, nor can it cite, any authority holding that the rights of an inventor to recover damages under state law in effect at the time of the fraudulent misappropriation are lost or forfeited by the issuance of a patent. Nor can United cite any authority for the proposition that the doctrine of patent abuse applies to the area of trade secret law to bar recovery for the destruction

in value of an inventor's trade secrets. Furthermore unsupported is United's contention that an inventor should be denied recovery because he participated with the party that committed the fraud in the activities alleged to be contrary to public policy, but totally unrelated to the inventor's claim.

For the above reasons this court should deny United's Petition for a Writ of Certiorari to review the opinion of the California Court of Appeal.

Respectfully submitted,

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GARY G. KUIST,
Attorneys for Respondent
Albert G. Bodine, Jr.

APPENDIX A.

Declaration of Henry G. Bodkin, Jr.

I. HENRY G. BODKIN, JR., declare that:

1. I am an attorney duly licensed to practice in all the courts of California and the United States Supreme Court, am a member of the firm of Bodkin, McCarthy, Sargent & Smith, attorneys for United Aircraft Corporation herein and am the attorney in charge of the representation of said client in this action on behalf of said firm.

2. Subsequent to the decision of this Court filed March 4, 1981, I filed a Petition for Hearing in the Supreme Court of California on April 6, 1981. On May 13, 1981, the Supreme Court made an order denying a hearing after having extended its time to rule on the Petition until June 1, 1981.

3. In accordance with his usual practice, the Clerk of this Court will issue a remittitur in this cause on June 2, 1981, the first day after the Supreme Court will lose jurisdiction, unless the issuance of said remittitur is stayed by appropriate order.

4. After studying the decision and opinion of March 4, 1981, I became aware of the fact that if plaintiff Bodine is permitted to avail himself of the rights and benefits provided under California law with respect to trade secrets, the effect will be contrary to the federal policy behind the federal patent statutes. This is true because plaintiffs' entire claim for damages, both as to the sonic drill and ASW device involved in this action, is based solely upon the claimed loss of the right to receive patent license royalties. Plaintiffs claim they would have received such royalties had the claimed trade secrets not been used and/or disclosed and their value allegedly destroyed prior to issuance of the patents which placed said trade secrets in the public domain. Of course the basis of the damage claim, i.e. loss of antic-

ipated patent royalties, is inconsistent with the trial court's ruling and jury instructions limiting damages which could be awarded to those sustained prior to issuance of patents covering the jacketed drill and ASW device.

5. Included in United's Petition for Hearing was an argument that the federal patent system has preempted state trade secret protection in the context of the facts of this case. This argument is set forth in the Memorandum of Points and Authorities served and filed herewith.

6. In the event issuance of the remittitur is not stayed, jurisdiction of this Court will cease and that of the trial court will attach. In the absence of mistake, inadvertence or fraud, this Court will be powerless to recall the remittitur and such order as may be made by the Untied States Supreme Court may be moot should the trial court proceed to exercise its jurisdiction to hear and determine the cause. In the interest of orderly procedure, the issuance of the remittitur should be stayed until the Petition for Writ of Certiorari has been filed and considered by the United States Supreme Court and that court has acted. Once jurisdiction is returned to the trial court, the energies of counsel for both parties will be devoted to further discovery and trial preparation as seems appropriate and time of the court will be required to consider and decide pertinent motions in advance of trial. The issuance of the stay requested will avoid this expenditure of the time of counsel and the trial court and the related expense to the litigants which will be unnecessary if the U.S. Supreme Court grants certiorari and decides the preemption question in favor of this moving party.

7. In preparing the Petition for Writ of Certiorari, I will have to rely heavily upon my associate, Ms. Toni M. Oberscheven. I am scheduled to be in the eastern United States and England during the period June 2, 1981 to June 15, 1981 on business matters. Ms. Oberscheven underwent re-

parative surgery on her ankle on May 15, 1981. The Court may recall that Ms. Oberscheven injured her ankle in an elevator accident on December 18, 1980, the day this matter was argued before this Court. As a consequence of extreme discomfort resulting from the presence of metal screws in her ankle since December 18, 1980, Ms. Oberscheven has been unable to resume her full work schedule to date. Due to the surgery performed on May 15, 1981, Ms. Oberscheven will be unable to resume her duties in the firm until at least June 9, 1981. Accordingly, although a Petition for Writ of Certiorari may be filed as late as August 11, 1981 under the rules of the U.S. Supreme Court, a stay as will grant the moving party until Monday, August 2, 1981 in which to file said Petition, and thereafter until said Petition has been acted upon and the matter decided by the U.S. Supreme Court, is requested.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 28th day of May, 1981, at Los Angeles, California.

/s/ Henry G. Bodkin, Jr.
HENRY G. BODKIN, JR.

Petitioner's Reply Brief

Office-Supreme Court
FILED
SEP 9 1981
ALEXANDER L. STEVAS
CLERK

No. 81-224

IN THE

Supreme Court of the United States

October Term, 1981

UNITED AIRCRAFT CORPORATION,

Petitioner,

vs.

ALBERT G. BODINE, JR., individually and doing business as Bodine Soundrive Company,

Respondent.

PETITIONER'S REPLY MEMORANDUM.

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Respondent.

PETITIONER'S REPLY MEMORANDUM.

Respondent, Albert G. Bodine, Jr. ("Bodine"), attempts in his Brief in Opposition filed in this matter to direct this Court's attention away from the single constitutional issue raised by this Petition. In its reply memorandum, petitioner United Aircraft Corporation ("United") will briefly answer Bodine's brief, and to the extent necessary, will attempt to correct Bodine's creative interpretation of the record herein.

Contrary to Bodine's assertion, United did raise its constitutional argument regarding the preemption of trade secret law by federal patent law at its earliest opportunity. United first raised the patent abuse defense prior to the second trial of this action in the Joint Statement of Issues, Contentions and Itemization of Damages (CT 2988). The trial court ruled that the patent abuse defense would be considered along with several other defenses pleaded by United, known collectively as the unclean hands defense (RT 7849.99-

7849.101). In its trial brief filed at the commencement of the 1977 trial, United argued that a finding of patent abuse or misuse by a patentee such as Bodine would require that the patentee be barred from recovery (CT 1193), based on *Morton Salt Co. v. G. S. Suppiger Co.* (1941) 314 U.S. 488. The conflict between the federal patent laws and the state trade secret laws, upon which United has based its Petition, did not in fact arise until the California Court of Appeal rejected United's argument that, as a matter of law, Bodine must be barred from any recovery because of his acts of patent abuse, and instead ruled that the trial court did not abuse its discretion in refusing to bar such recovery by Bodine.

Bodine also attempts to divert this Court from the constitutional issue raised in United's Petition by his misleading discussion of the evidence relating to the merits of this action. Bodine would have this Court believe that he cannot be guilty of patent abuse because his conduct related only to the ASW and drill "trade secrets", and not to the patents which eventually issued, which he now claims are somehow different from those trade secrets. Although respondent apparently believes he can rewrite the record below to suit his present purposes, it is nonetheless true that the trial court held that Bodine's ASW and drill "trade secrets" were disclosed by his patents and limited any recovery of damages to those sustained prior to the issuance of those patents (CT 1563), and that the trial court found that Bodine was guilty of conduct with regard to those patents constituting patent abuse and misuse (CT 2349). Since the trial court found that Bodine abused his patent rights — a finding unquestioned by the California Court of Appeal — Bodine's trans-

parent attempt to have this Court retry the issue *de novo* is ill-conceived and inappropriate.[1]

Bodine's disingenuous revisions of the testimony elicited at the 1977 trial regarding his claim for damages is equally inappropriate. Based on the respon s discussion of his damages claim contained in his brief in opposition (pp. 11-13), Bodine has apparently forgotten that with regard to the drill damages, his expert witness, William T. Rhame, testified that in the approaches he used in calculating the value of Bodine's drill trade secret he assumed the receipt of anticipated royalties (RT 3811).[2] Further, Bodine's own testimony as to the value of the drill was based on anticipated royalties from sales (RT 4093) and on the $20 million paid-up option negotiated with United, which was nothing more than a lump-sum royalty (RT 925-6).

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[1]These are not the only areas of Bodine's brief in opposition which contain outright misstatements and/or misleading discussions of the record in this action. Several of the more egregious examples of Bodine's disregard for the facts are contained in the Statement of the Case in his Brief in Opposition, such as his remarkable claim that United approached Bodine regarding his "trade secrets" (p. 2) when in fact, and as the trial court held, it was Bodine who approached United (CT 2884).

Another of Bodine's startling claims is that his Patent No. 3,096,833 (Exhibit 242) only disclosed "limited elements of the [jacketed drill] concept," and that other trade secrets relating to the jacketed drill concept were "misappropriated or otherwise destroyed by United" (pp. 2, 10). The respondent has apparently forgotten that during the 1977 trial, he testified that United did not use or disclose any of the list of drill trade secrets which were not included in the Patent No. 3,096,833 (RT 3984-8). Although United does not intend to argue factual matters already ruled upon by the lower courts as Bodine has attempted to do, it cannot allow such blatant misstatements to go unremarked, particularly since they are offered by a man who was found by the Court of Appeal to have presented "perjured testimony" (United's Petition, Appendix A, p. 20).

[2]Rhame's third approach assumed that in lieu of royalties, Bodine would receive an equivalent amount of stock in a corporation to be formed by a group of investors (RT 3813).

As to the ASW device, Bodine's expert witness, H. A. O'Neal, testified that the Navy would have purchased a number of the ASW devices but for United's supposedly fraudulent activities (RT 3338). This allowed Bodine to base his testimony regarding the value of the ASW device on anticipated royalties of $10 million per year from those sales (RT 928). The testimony as outlined above clearly reveals that all the witnesses, including Bodine himself, based their valuations of the two "trade secrets" prior to their claimed destruction by United on Bodine's anticipated royalties under patent licensing agreements. These valuations were then contrasted with testimony regarding their alleged post-destruction values to form the basis for Bodine's damage claims. For respondent to claim, as he has in his brief in opposition, that his claimed damages were not based on anticipated royalties is a deliberate distortion of the record in this action.

Finally, Bodine has apparently construed the fact that the trial court chose to consider the patent abuse defense as a part of the equitable defense of unclean hands along with the other affirmative defenses pleaded by United as a concession that the principles which determine whether the unclean hands defense is applicable in an action also determine the applicability of the patent abuse defense. Bodine's apparent misapprehension is revealed by his arguments regarding the discretionary nature of the unclean hands defense (Brief in Opposition, pp. 7-9) and that the misconduct constituting unclean hands must be transactionally related to the plaintiff's cause of action (Brief in Opposition, pp. 13-15).

Such arguments, however, ignore the very core of the argument stated in United's Petition. The trial court found that Bodine was guilty of conduct constituting patent misuse (CT 2348-9). Those claimed trade secrets were the subject

of Bodine's patent abuse in the form of package licensing and tying arrangements. The patents which ultimately issued and thereby disclosed the "trade secrets" were among the group of patents on which Bodine required the payment of post-expiration royalties. Under these circumstances, and under the principles of the patent abuse defense as set forth in *Morton Salt Co. v. G. S. Suppiger Co., supra*, and *American Securit Co. v. Shatterproof Glass Corp.* (3rd Cir. 1959) 268 F.2d 769, *cert den.* (1959) 361 U.S. 902, application of the patent abuse defense to bar Bodine's recovery was mandatory. The failure of the California courts to apply the defense as a bar to Bodine's recovery has created a conflict between the state trade secret and federal patent laws, which United by its Petition has asked this Court to resolve.

Respectfully submitted,

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